SASKENERGY INCORPORATED
AND
SUBSIDIARIES

FINANCIAL STATEMENTS

December 31, 2009

SASKENERGY INCORPORATED AND SUBSIDIARIES

2009 FINANCIAL STATEMENTS

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SASKENERGY INCORPORATED

CONSOLIDATED
FINANCIAL STATEMENTS

December 31, 2009

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Auditors' Report

To the Members of the Legislative Assembly
Province of Saskatchewan

We have audited the consolidated statement of financial position of SaskEnergy Incorporated as at December 31, 2009 and the consolidated statements of income and retained earnings, comprehensive income, accumulated other comprehensive loss and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP.

Chartered Accountants

Regina, Saskatchewan
February 25, 2010

SASKENERGY INCORPORATED
Consolidated Statement of Financial Position

As at December 31
(millions of dollars)

	Notes	2009	2008
Assets			
Current assets			
Cash		$ -	$ 4
Accounts receivable	5	113	160
Natural gas in storage held for resale	6	258	199
Inventories of supplies	7	9	16
Debt retirement funds	8	9	-
Fair value of derivative instruments	9	52	46
Assets of discontinued operations	10	-	62
		441	487
Intangible assets	11	15	18
Property, plant and equipment	12	1,004	945
Natural gas in storage held for resale and operations	6	34	35
Debt retirement funds	8	48	48
Investments	13	30	28
		$ 1,572	$ 1,561
Liabilities and Province's Equity			
Current liabilities			
Bank indebtedness		$ 1	$ -
Short-term debt	14	108	164
Accounts payable	15	126	132
Dividends payable		21	6
Current portion of long-term debt	14	80	39
Fair value of derivative instruments	9	38	61
Liabilities of discontinued operations	10	-	6
		374	408
Asset retirement obligations	16	8	8
Long-term debt	14	715	712
		1,097	1,128
Province of Saskatchewan's equity			
Retained earnings		406	364
Accumulated other comprehensive loss	17	(3)	(3)
		403	361
Equity advances	18	72	72
		475	433
		$ 1,572	$ 1,561
Commitments and contingencies	19		

(See accompanying notes)

On behalf of the Board:

Director

Director

SASKENERGY INCORPORATED
Consolidated Statement of Income and Retained Earnings

Years ended December 31
(millions of dollars)

	Notes	2009	2008
Revenue			
Commodity sales		$ 451	$ 432
Gas marketing sales		446	576
Delivery		184	175
Transportation and storage		80	77
Revenue collected for municipalities	20	26	25
Other	21	10	16
		1,197	1,301
Expenses			
Commodity cost of gas sold		418	470
Gas marketing cost of gas sold		417	539
Operating and maintenance		148	138
Interest	22	43	41
Amortization	23	57	55
Payment to municipalities	20	26	25
Saskatchewan taxes	24	8	8
		1,117	1,276
Net income from continuing operations		80	25
Gain on sale of investment	10	8	-
Net income from discontinued operations	10	5	5
Net income		93	30
Retained earnings, beginning of year		364	379
Change in accounting policy	3	-	(2)
Dividends		(51)	(43)
Retained earnings, end of year		$ 406	$ 364

(See accompanying notes)

SASKENERGY INCORPORATED
Consolidated Statement of Comprehensive Income

Years ended December 31
(millions of dollars)

	2009	2008
Net income	$ 93	$ 30
Other comprehensive income		
Unrealized gains (losses) on translating financial statements of self-sustaining foreign operations	-	2
Comprehensive income	$ 93	$ 32

SASKENERGY INCORPORATED
Consolidated Statement of Accumulated Other Comprehensive Loss

Years ended December 31
(millions of dollars)

	2009	2008
Accumulated other comprehensive loss, beginning of year	$ (3)	$ (5)
Other comprehensive income	-	2
Accumulated other comprehensive loss, end of year	$ (3)	$ (3)

(See accompanying notes)

SASKENERGY INCORPORATED
Consolidated Statement of Cash Flows

Years ended December 31
(millions of dollars)

	Notes	2009	2008
Operating Activities			
Net income		$ 93	$ 30
Add (deduct) items not requiring an outlay of cash			
Amortization	23	57	55
Change in fair value of derivative instruments	9	(29)	23
Gain on sale of investment	10	(8)	-
Debt retirement funds earnings		(3)	(2)
Equity earnings		(3)	(2)
Other		-	5
		107	109
Net change in non-cash working capital related to operations	25	(25)	(83)
Decrease in natural gas in storage - non-current		1	1
Cash provided by operating activities from continuing operations		83	27
Cash used in discontinued operations	10	(7)	(16)
Cash provided by operating activities		76	11
Investing Activities			
Net additions to property, plant and equipment		(130)	(114)
Capital contributions and deposits received	12	31	37
Proceeds on sale of investment	10	73	-
Additions to investments		-	(5)
Cash used in investing activities		(26)	(82)
Financing Activities			
Increase in bank indebtedness		1	-
Decrease in short-term debt		(55)	75
Proceeds from long-term debt		83	120
Repayments of long-term debt		(39)	(75)
Debt retirement fund installments		(8)	(6)
Debt retirement fund redemptions		-	3
Dividends paid		(36)	(44)
Cash (used in) provided by financing activities		(54)	73
(Decrease)increase in cash during the year		(4)	2
Cash position, beginning of year		4	2
Cash position, end of year		$ -	$ 4

SaskEnergy Incorporated
Notes to the Consolidated Financial Statements
December 31, 2009

1. Status of the Corporation

SaskEnergy Incorporated (SaskEnergy or the Corporation) is a Saskatchewan provincial Crown corporation operating under authority of *The SaskEnergy Act*.

By virtue of *The Crown Corporations Act, 1993*, SaskEnergy has been designated as a subsidiary of Crown Investments Corporation of Saskatchewan (CIC), a provincial Crown corporation. Accordingly, the financial results of SaskEnergy are included in the consolidated financial statements of CIC.

As a provincial Crown corporation, SaskEnergy and its wholly owned subsidiaries are not subject to Federal or Provincial income taxes in Canada.

The Corporation owns and operates natural gas-related businesses located both within and outside Saskatchewan.

2. Summary of Significant Accounting Policies

The consolidated financial statements include the accounts of SaskEnergy and its direct and indirect wholly owned subsidiaries, Bayhurst Gas Limited, Bayhurst Energy Services Corporation (and its ten wholly owned subsidiaries), Many Islands Pipe Lines (Canada) Limited, Saskatchewan First Call Corporation, SaskEnergy International Incorporated, SaskEnergy Chilean Holdings I Ltd., SaskEnergy Chilean Holdings II Ltd., SaskEnergy Mexican Holdings Ltd., SaskEnergy Nova Scotia Holdings Ltd. (note 10), Swan Valley Gas Corporation, and TransGas Limited. The accounts also include the Corporation's 100 per cent ownership interest in SaskEnergy Chilean Holdings Limitada, a Chilean limited partnership, the Corporation's 50.1 per cent proportionate share of Heritage Gas Limited (note 10), accounted for as a joint venture, and the 50 per cent proportionate share of the Kisbey Gas Gathering and Processing Facility, an unincorporated joint venture.

As outlined in note 10, SaskEnergy Nova Scotia Holdings Ltd. sold its interest in Heritage Gas Limited effective October 1, 2009 and wound up all operations by December 31, 2009.

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and require management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management periodically evaluates the estimates and assumptions used based on past experience and other factors considered reasonable under the circumstances. The inherent uncertainty involved in making such estimates and assumptions may impact the actual results reported in future periods. Due to market volatility, changes in future conditions in the near term could result in a material change. Significant areas requiring the use of estimates and assumptions are described in the following summary of significant accounting policies. The impact of rate regulation on the application of GAAP is described in note 28. The following accounting policies are considered to be significant:

a. Natural gas in storage

Natural gas in storage is stated at the lower of cost and net realizable value. Cost is determined on a weighted average cost basis. Net realizable value is determined using near month and forward natural gas market prices as appropriate.

2. Summary of Significant Accounting Policies (continued)

b. Inventories of supplies

Inventories of supplies consist primarily of pipe and general stock for construction and maintenance and are recorded at the lower of average cost and net realizable value. Replacement cost is used as management's best estimate of the net realizable value.

c. Intangible assets

Intangible assets includes computer software that was previously reported as property, plant and equipment (note 3). Intangible assets are stated at cost and include all direct costs related to the development of the assets. Amortization expense is calculated on a straight-line basis over the estimated service life of the asset. The amortization rate is 8.3 to 20.0 per cent.

d. Property, plant and equipment

Property, plant and equipment is stated at cost and includes all direct costs related to the development of the assets and an allowance for interest costs related to financing construction of the related assets.

The costs of renewals and betterments which extend the economic useful life of assets are capitalized.

Retirement or sale of a major item or class of property, plant and equipment is accounted for by relieving the asset accounts of the associated cost and accumulated amortization. The difference between the proceeds and the net book value of the assets disposed is included in income for the current period.

Other asset retirements are recorded by reducing the account by the cost of the asset and charging this amount, net of proceeds received, to accumulated amortization.

Amortization expense is calculated on a straight-line basis over the estimated service life of the asset. The amortization rates are as follows: (per cent)

Transmission and storage	2.5 to 2.6
Distribution	2.5 to 3.5
Gathering, treatment and compression	2.5 to 3.5
Computer hardware	20.0 to 33.3
Vehicles, equipment and other	2.5 to 16.4

Customer capital contributions relate to construction of new service connections. These contributions from customers are amortized on a straight-line basis over the estimated service life of the related asset.

e. Investments

The Corporation accounts for its investments in Gas Sur S.A. and IGASAMEX USA Ltd. using the equity method.

2. Summary of Significant Accounting Policies (continued)

f. Asset retirement obligations

Where a legal obligation exists, the Corporation recognizes the fair value of its asset retirement obligations relating to the future decommissioning of certain natural gas facilities as a liability in the period in which the obligation is incurred provided a reasonable estimate of fair value can be determined. The liability is increased annually for the passage of time through accretion expense. The associated asset retirement cost is added to the carrying amount of the related asset and amortized over the estimated useful life of the related asset.

Due to the long-term nature of the assumptions made in the cost estimates, there could be a material adjustment to income in future reporting periods. Therefore, revisions will be made periodically to reflect more accurate estimates.

g. Financial instruments

SaskEnergy classifies its financial instruments into one of the following categories: 1) held-for-trading, 2) held-to-maturity, 3) loans and receivables, 4) available-for-sale, and 5) other liabilities.

All financial instruments are measured at fair value upon initial recognition. The fair value of a financial instrument is the amount at which the financial instrument could be exchanged in an arm's length transaction between knowledgeable and willing parties under no compulsion to act.

Financial assets and liabilities classified as held-for-trading are subsequently measured at fair value with changes in fair value recognized in net income. Financial assets classified as available-for-sale are subsequently measured at fair value with changes in fair value recognized in other comprehensive income until the financial asset is sold or other than temporarily impaired at which time the cumulative gain or loss is recognized in net income. Financial assets classified as held-to-maturity and loans and receivables as well as financial liabilities classified as other liabilities are subsequently amortized using the effective interest method. All derivatives are recognized as an asset or liability as of the financial statement date.

Transaction costs related to held-for-trading financial assets and liabilities are expensed as incurred. For all other financial instruments, transaction costs are included in the initial carrying amount.

Cash is classified as held-for-trading. Accounts receivable are classified as loans and receivables. Carrying value approximates fair value due to the short-term nature of these instruments. The debt retirement funds are classified as held-for-trading assets and recorded at fair value. The change in the fair value of the debt retirement funds is recognized in interest expense.

Bank indebtedness is classified as held-for-trading. Short-term debt, accounts payable, and dividends payable are classified as other liabilities. Carrying value approximates fair value due to the short-term nature of these instruments. Long-term debt is classified as other liabilities and recorded at amortized cost. The related debt premium, discount and issue costs are included in the carrying value of the long-term debt and are recognized in interest expense using the effective interest rate method.

2. Summary of Significant Accounting Policies (continued)

The Corporation uses hedge accounting for interest rate swaps used to hedge long-term debt. The effective portion of changes in the fair value is recognized in other comprehensive income while any ineffective portion of changes in the fair value is recognized immediately in interest expense. Gains and losses deferred in accumulated other comprehensive loss are reclassified in interest expense in the same period as the hedged item is settled. The Corporation uses hedge accounting for foreign currency forward contracts used to hedge capital expenditures denominated in a foreign currency. Gains or losses are recognized in other comprehensive income and reclassified to amortization expense over the life of the related capital asset. Interest rate swaps and foreign currency forward contracts may be designated as cash flow hedges.

Derivative financial instruments not designated as a hedge are classified as held-for-trading and are recorded at fair value in the statement of financial position in current assets or current liabilities as applicable. The change in the fair value of these derivatives is recorded in net income and classified within the revenue or expense category to which they relate. The revenue and expense categories impacted are described in note 9c.

Embedded derivatives are recorded at fair value on the statement of financial position.

The Corporation's foreign investments are self-sustaining, and the financial statements are translated from the functional currency into Canadian dollars using the current rate method. Translation adjustments resulting from changes in the exchange rate between the functional currency and the Canadian dollar are reflected in accumulated other comprehensive loss in the Province of Saskatchewan's equity.

The Corporation classifies the fair value of its financial instruments and derivatives according to the following hierarchy based on the amount of observable inputs used to value the instruments.

i. Level 1 - Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis. The Corporation does not use Level 1 inputs for any of its recurring fair value measurements.

ii. Level 2 - Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reported date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value, volatility factors and broker quotations, which can be substantially observed or corroborated in the marketplace. Instruments in this category include nonexchange traded derivatives such as over-the-counter physical forwards and options, including those which have prices similar to quoted market prices.

iii. Level 3 - Valuations in this level are those with inputs which are less observable, unavailable or where the observable data does not support the majority of the instrument's fair value. The Corporation does not use Level 3 inputs for any of its recurring fair value measurements.

2. Summary of Significant Accounting Policies (continued)

h. Revenue recognition

Delivery and commodity revenue is recognized when natural gas is delivered to customers. An estimate of natural gas delivered, but not billed, is included in revenue.

Revenue from natural gas marketing is recorded upon completion of the delivery of natural gas to the customer. The Corporation acts as a principal in these natural gas marketing transactions, taking title to the natural gas purchased for resale, and assuming the risks and rewards of ownership. Changes in the fair value of outstanding gas marketing sales contracts are recorded as gains or losses in the period of change.

Revenue is recognized when transportation, transportation-related services and storage are provided to customers and the ultimate collection is reasonably assured. An estimate of transportation, storage and related services rendered, but not billed, is included in revenue.

Royalty revenue, included in other revenue, is recognized when natural gas is sold from wells subject to royalty agreements and the ultimate collection is reasonably assured.

Natural gas and liquid sales, included in other revenue, is recognized when natural gas and natural gas liquids are delivered to customers and ultimate collection is reasonably assured.

i. Cost of gas sold

The cost of gas sold includes the cost of purchasing natural gas in the open market, derivative financial instrument settlements, fair value adjustments on outstanding derivative financial and non-financial instruments, transportation, direct operating costs related to supply acquisition, and natural gas inventory carrying costs.

j. Gas marketing

The Corporation may enter into contracts that require either the physical delivery (sale) or receipt (purchase) of natural gas in a future period. The gain or loss on these transactions is the difference between the sales revenue recognized in the period and the average cost of natural gas required to fulfill those sales.

Changes in the fair value of the contracts due to a change in market prices up to the date of settlement are recorded as gains or losses in gas marketing sales or gas marketing cost of gas sold in the period of change.

k. Employees' future benefits

i. Pension plans

The Corporation provides pension plans for all eligible employees, including a defined contribution pension plan and a defined benefit pension plan.

Under both multiemployer plans the Corporation's obligations are limited to making regular payments to the plans for current services. When made, these contributions are charged to expenses.

2. Summary of Significant Accounting Policies (continued)

ii. Retiring allowance plan

The cost of future retirement allowance benefits earned by employees under this plan is actuarially determined using the projected benefit method and management's best estimates.

l. Future accounting policy changes

The Canadian Institute of Chartered Accountants (CICA) has issued several new Handbook Sections: Section 1582 – Business Combinations, Section 1601 – Consolidated Financial Statements and Section 1602 – Non-Controlling Interests for fiscal years beginning on or after January 1, 2011. These sections replace existing Handbook Sections 1581 and 1600 and establish standards for the accounting for business combinations, preparation of consolidated financial statements and accounting for a non-controlling interest in a subsidiary. The Corporation is evaluating the potential impacts of these accounting recommendations and does not anticipate a significant impact on the Corporation's financial statements.

The CICA has announced that publicly accountable Canadian entities will be required to prepare financial information in accordance with International Financial Reporting Standards (IFRS) effective January 1, 2011. Although IFRS are a principle-based set of standards, similar to current GAAP, there are areas where the accounting treatment differs from Canadian GAAP. The Corporation is evaluating the potential impacts of IFRS on the Corporation's financial statements.

3. Changes in Accounting Policies

Effective January 1, 2009, SaskEnergy adopted the CICA Handbook Section 3064 – Goodwill and Intangible Assets. This section supersedes Section 3062 – Goodwill and Other Intangible Assets and Section 3450 – Research and Development Costs. This section establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The standard requires retrospective application with restatement of prior year comparative results. Intangible assets are to be presented and disclosed separately in the financial statements and in the notes to the financial statements.

Upon the adoption of the new standard, SaskEnergy is presenting and disclosing intangible assets separately in the financial statements and in the notes to the financial statements. The impact of applying this change in accounting policy effective January 1, 2009 was as follows:

	Dec. 31 2008
	(millions)
Intangible assets (net)	$ 18
Property, plant and equipment (net)	(18)
Total assets	$ -
Total liabilities and Province's equity	$ -

3. Changes in Accounting Policies (continued)

The CICA implemented revisions to Handbook Section 3862 "Financial Instruments – Disclosures" for fiscal years ending after September 30, 2009. These revisions are intended to align the disclosure requirements for financial instruments to the maximum extent possible with the disclosure required under IFRS. These revisions require additional disclosure based on a three level hierarchy that reflects the significance of inputs used in measuring fair value. The new required disclosure is provided in Notes 2 and 9.

4. Capital Disclosure

The Corporation's objective when managing its capital is to maintain financial stability through the effective management of liquidity and capital structure. Ensuring financial stability is critical to providing safe reliable service to Saskatchewan residents, businesses and industries.

SaskEnergy finances its capital requirements through internally generated funds and injections of capital from the Province of Saskatchewan, typically in the form of debt. Under *The SaskEnergy Act*, the Corporation may borrow up to $1.3 billion of debt upon approval of the Lieutenant Governor in Council. As at December 31, 2009, SaskEnergy had $904 million of debt outstanding, authority to borrow an additional $292 million of temporary loans, and a $35 million uncommitted line of credit with Toronto-Dominion Bank.

The Corporation borrows all of its capital, with the exception of occasional overnight loans from the Toronto-Dominion Bank, from the Province of Saskatchewan. Given the Province of Saskatchewan's strong credit rating, the Corporation was able to acquire all of its funding requirements during 2009. SaskEnergy's borrowing requirement constitutes a minor portion of the Government of Saskatchewan's total borrowings.

The Corporation monitors capital on the basis of the debt ratio. The current long-term per cent debt ratio target is 65 per cent, which is consistent with the prior year and comparable to publicly traded natural gas pipeline and distribution utilities. SaskEnergy adjusts its dividend payments to CIC to maintain its debt ratio at industry comparable levels. The purpose of this strategy is to ensure that SaskEnergy's debt is considered self supporting and does not adversely affect the Province's access to capital markets. The Corporation's objectives, policies and processes for managing its capital are consistent with the prior year.

4. Capital Disclosure (continued)

The per cent debt ratio is calculated as net debt divided by end of year capitalization as follows:

	2009	2008
	(millions)	
Gross long-term debt	$ 795	$ 751
Short-term debt	108	164
Bank indebtedness	1	-
Debt retirement funds	(57)	(48)
Cash	-	(4)
Total net debt	847	863
Equity advances	72	72
Retained earnings	406	364
Total capital	$ 1,325	$ 1,299
Debt ratio	63.9%	66.4%

SaskEnergy complied with all externally imposed requirements on its capital for the year ended December 31, 2009.

5. Accounts Receivable

	2009	2008
	(millions)	
Unbilled revenue	$ 71	$ 114
Trade accounts	31	41
Other receivables	11	5
	$ 113	$ 160

6. Natural Gas in Storage Held for Resale and Operations

During the year, $695 million of natural gas in storage held for resale (2008 - $959 million) was recognized as cost of gas sold. There was no write-down of natural gas in storage and no reversal of prior period write-downs during 2009.

7. Inventories of Supplies

During the year, $25 million of inventories of supplies (2008 - $18 million) were consumed. There was no write-down of inventory of supplies and no reversal of any prior period write-down during 2009.

8. Debt Retirement Funds

Under conditions attached to certain advances from the Province of Saskatchewan's General Revenue Fund, SaskEnergy is required (on an annual basis) to invest an amount equal to one per cent of the related outstanding debt. This investment is referred to as a debt retirement fund. These debt retirement funds are administered by Saskatchewan's Ministry of Finance. The investments held in these debt retirement funds are primarily Federal and Provincial Government debt instruments. The yield on these investments was 5.4 per cent for 2009 (2008 - 5.8 per cent). Debt retirement funds are held-for-trading assets and are recorded at fair value on the consolidated statement of financial position.

Amounts required to be invested in the debt retirement fund in each of the next five years are as follows: (millions)

2010	2011	2012	2013	2014
$ 8	$ 7	$ 7	$ 7	$ 6

9. Financial Instruments and Risk Management

a. Financial instruments

The fair value of the Corporation's financial instruments is listed below:

	2009		2008	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(millions)			
Other liabilities				
Long-term debt	**$ 795**	**$ 889**	$ 751	$ 851
Held-for-trading				
Debt retirement funds	**57**	**57**	48	48

The fair value of the above instruments was based on the following:

i. Long-term debt – The present value of future cash flows discounted at the market rate of interest for the equivalent Province of Saskatchewan debt instruments.

ii. Debt retirement funds – The fair value measurements are calculated using Level 2 inputs. The market value of the investments held in the debt retirement fund is determined by Saskatchewan's Ministry of Finance using information provided by investment dealers. To the extent possible, valuations reflect indicative secondary pricing for these securities. In all other circumstances, valuations are determined with reference to similar actively traded instruments.

9. Financial Instruments and Risk Management (continued)

The fair value of other financial instruments, including cash, accounts receivable, bank indebtedness, short-term debt, accounts payable and dividends payable approximate their carrying values due to the short-term nature of the instruments.

b. Natural gas derivative instruments

The fair value of natural gas derivative instruments held-for-trading, with the exception of natural gas price options, is calculated daily and is based on quoted market prices. The Corporation obtains information from sources such as the New York Mercantile Exchange and the Natural Gas Exchange, independent price publications and over-the-counter broker quotes. All of the Corporation's recurring fair value measurements are calculated using Level 2 inputs. The fair value of natural gas price options is determined using the Garman-Kohlhagen model which requires the use of various assumptions, including quoted market prices, interest rates and volatility estimates for forward natural gas prices, which are each based on external market sources. For physical natural gas contracts notional values are an approximation of future net cash flows based on contract price multiplied by contract quantity. For other derivative instruments, the notional value is the difference between the contract price and the market price. SaskEnergy has sufficient borrowing capacity to fund these contractual obligations. Where contract prices are referenced to an index price that has not yet been fixed, the market price at December 31, 2009 has been used to estimate the contract price. At December 31, 2009, all derivative assets and liabilities held-for-trading are recorded on the consolidated statement of financial position at fair value.

As at December 31, 2009, natural gas derivative instruments held-for-trading had the following fair values, notional values and maturities:

	2010	2011	2012	2013	2014	Total
			(millions)			
Physical natural gas contracts						
Fair value	$ 6	$ 1	$ 1	$ -	$ -	$ 8
Notional value	(164)	14	5	2	2	(141)
Natural gas price swaps						
Fair value	(6)	5	4	3	-	6
Notional value	(5)	5	4	3	-	7
Total						
Fair value	$ -	$ 6	$ 5	$ 3	$ -	$ 14
Notional value	$ (169)	$ 19	$ 9	$ 5	$ 2	$ (134)

Fair value - increase (decrease)
Notional value - estimated net cash inflow (outflow)

9. Financial Instruments and Risk Management (continued)

c. Changes in fair value

The fair value of derivative instruments is presented on the consolidated statement of financial position as follows:

	2009	2008
	(millions)	
Fair value of derivative instrument assets	$ 52	$ 46
Fair value of derivative instrument liabilities	(38)	(61)
	$ 14	$ (15)

The change in fair value of financial and derivative instruments is recorded in net income within the relevant revenue or expense category. For the year ended December 31 the increase (decrease) in net income of these unrealized gains and losses was as follows:

	2009	2008
	(millions)	
Derivative instruments		
Gas marketing sales	$ 7	$ 31
Commodity cost of gas sold	21	(47)
Gas marketing cost of gas sold	3	(9)
	31	(25)
Financial instruments		
Gas marketing cost of gas sold	(1)	1
Interest expense	(1)	(1)
Increase (decrease) in net income	$ 29	$ (25)

d. Risk management

The Corporation uses various derivative financial instruments to manage the risks associated with its operating exposures to fluctuations in foreign currency exchange rates, interest rates and the price of natural gas. A Corporate Derivatives Policy and specific risk management strategies establish the guidelines within which such derivative financial instruments may be used. The objectives, policies and processes for managing risk were consistent with the prior year.

9. Financial Instruments and Risk Management (continued)

i. Natural gas price risk

The Corporation may manage the risk associated with the purchase and sale price of natural gas. The purchase or sale price of natural gas may be fixed within the contract, or referenced to a floating index price. When the price is referenced to a floating index price, natural gas derivative instruments may be used to fix the settlement amount. The types of natural gas derivative instruments SaskEnergy may use for price risk management include natural gas price swaps, options, swaptions and futures contracts.

Based on the Corporation's December 31, 2009 closing positions, an increase of $1.00 per Gigajoule in natural gas prices would have increased net income, through an increase in the fair value of natural gas contracts, by $1 million. Conversely, a decrease of $1.00 per Gigajoule would have decreased net income, through a decrease in the fair value of natural gas contracts, by $1 million.

ii. Foreign currency exchange and interest rate risk

The Corporation may use derivative financial instruments to manage the interest rate risk on anticipated borrowing requirements and the foreign currency exchange rate on foreign currency denominated transactions. For the purpose of managing interest rate risk, the Corporation may use forward rate agreements, options and interest rate swaps to achieve an annual average interest rate target. During the year ended December 31, 2009 the Corporation did not enter into or settle any such instruments.

For the purpose of managing the exchange rate risk on transactions denominated in foreign currency, SaskEnergy may use currency forwards and currency options. During the year ended December 31, 2009 the impact of these instruments on net income was $nil (2008 - $nil).

At year end, the Corporation had $108 million of short-term debt which is refinanced quarterly. In addition, $80 million of long-term debt will mature in 2010 at which time it will be refinanced. Based on the short-term debt balance as at December 31, 2009 and the long-term debt maturing in 2009, a one per cent change in interest rates would increase or decrease the annual interest expense by approximately $2 million.

9. Financial Instruments and Risk Management (continued)

iii. Liquidity risk

Liquidity risk is the risk that the Corporation is unable to meet its financial obligations as they become due. For financial obligations, the Corporation has credit facilities available to refinance maturities in excess of anticipated operating cash flows. The following summarizes the contractual maturities of the Corporation's financial obligations as at December 31, 2009:

	6 months or less	7 - 12 months	1 - 2 years	3 - 5 years	More than 5 years
			(millions)		
Bank indebtedness	$ 1	$ -	$ -	$ -	$ -
Short-term debt	108	-	-	-	-
Accounts payable	126	-	-	-	-
Dividends payable	21	-	-	-	-
Derivative instruments	112	57	-	-	-
Long-term debt	21	101	38	256	902
Debt retirement fund installments	4	4	7	20	59
	$ 393	$ 162	$ 45	$ 276	$ 961

The long-term debt obligations include principal and interest payments.

iv. Credit risk

The Corporation is exposed to credit risk through cash, accounts receivable, debt retirement funds and derivative instrument assets. Credit risk related to cash and debt retirement funds is minimized by dealing with institutions that have strong credit ratings and holding highly-rated financial securities.

The Corporation extends credit to its customers in the normal course of business and is at risk of loss in the event of non-performance by counterparties on certain of the financial instruments described above. To reduce its credit risk, SaskEnergy has established policies and procedures to monitor and limit the amount of credit extended to its customers and counterparties and may require letters of credit and other forms of security. At December 31, 2009 the maximum credit exposure to a single counterparty was $14 million (2008 - $14 million).

Derivative credit risk arises from the possibility that a counterparty to a contract fails to perform according to the terms and conditions of that contract. Derivative credit risk is minimized by dealing with creditworthy counterparties in accordance with established credit approval policies.

9. Financial Instruments and Risk Management (continued)

The carrying amount of financial and derivative assets represents the maximum credit exposure as follows:

	2009	2008
	(millions)	
Cash	$ -	$ 4
Accounts receivable	113	160
Debt retirement funds	57	48
Fair value of derivative instrument assets	52	46
Maximum credit exposure	$ 222	$ 258

The following reflects an aging summary of the Corporation's accounts receivable:

	2009	2008
	(millions)	
Current	$ 109	$ 155
30 - 59 days	3	3
60 - 89 days	1	1
Greater than 90 days	1	2
	114	161
Allowance for doubtful accounts	(1)	(1)
	$ 113	$ 160

Provisions for credit losses are maintained and regularly reviewed by the Corporation. Credit losses are estimated based on an aging of customer accounts. Amounts are written off once reasonable collection efforts have been exhausted. Details of the allowance are as follows:

	2009	2008
	(millions)	
Allowance for doubtful accounts, beginning of year	$ 1	$ 1
Provision	2	1
Recoveries	2	2
Write-offs	(4)	(3)
Allowance for doubtful accounts, end of year	$ 1	$ 1

10. Net Income from Discontinued Operations

SaskEnergy Nova Scotia Holdings Ltd. (Nova Scotia Holdings), a wholly owned subsidiary of SaskEnergy, sold its 50.1 per cent interest in Heritage Gas Limited (Heritage Gas) effective October 1, 2009 to AltaGas Utility Holdings (Nova Scotia) Inc. of Calgary, Alberta. The transaction which closed on November 18, 2009, had a cash purchase price of $73 million with a resulting gain on sale of $8 million.

Due to the sale of Heritage Gas and the subsequent winding up of Nova Scotia Holdings operations by December 31, the Corporation has removed the results of Nova Scotia Holdings and Heritage Gas from its ongoing financial position, operations and cash flows as follows:

Consolidated statement of financial position

	2009	2008
	(millions)	
Current assets	$ -	$ 4
Long-term assets	-	58
Current liabilities	-	(4)
Long-term liabilities	-	(2)

Consolidated statement of income

	2009	2008
	(millions)	
Revenue	$ 13	$ 16
Expenses	(8)	(11)
Net income	$ 5	$ 5

Consolidated statement of cash flows

	2009	2008
	(millions)	
Cash used in operating activities	$ (3)	$ (7)
Cash used in investing activities	(4)	(9)
	$ (7)	$ (16)

11. Intangible Assets

	2009			2008		
	(millions)					
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Computer software	$ 49	$ 36	$ 13	$ 49	$ 31	$ 18
Work in progress	2	-	2	-	-	-
	$ 51	$ 36	$ 15	$ 49	$ 31	$ 18

Intangible assets acquired during the year were $1 million (2008-$3 million).
Intangible assets developed during the year were $1 million (2008-$5 million).

12. Property, Plant and Equipment

	2009			2008		
	(millions)					
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Distribution	$ 755	$ 263	$ 492	$ 705	$ 244	$ 461
Transmission and storage	752	263	489	703	245	458
Gathering, treatment and compression	186	84	102	172	77	95
Vehicles, equipment and other	104	49	55	104	49	55
Computer hardware	26	16	10	32	24	8
Construction in progress	50	-	50	49	-	49
	$ 1,873	$ 675	1,198	$ 1,765	$ 639	1,126
Less:						
Unamortized customer capital contributions			194			181
			$ 1,004			$ 945

12. Property, Plant and Equipment (continued)

Customer capital contributions are required to be paid by customers to SaskEnergy to aid in construction of certain customer-specific facilities in accordance with established business policies.

	2009	2008
	(millions)	
Customer capital contributions, beginning of year	**$ 181**	$ 148
Contributions received	**17**	37
Amortization of contributions	**(4)**	(4)
Customer capital contributions, end of year	**$ 194**	$ 181

13. Investments

Investments are as follows:

	2009		2008	
	Amount (millions)	Ownership (per cent)	Amount (millions)	Ownership (per cent)
Equity investments				
Gas Sur S.A.				
Initial investment	**$ 14**	**30.0**	$ 14	30.0
Accumulated equity earnings	**4**		4	
Foreign currency translation adjustment	**(1)**		(3)	
	17		15	
IGASAMEX USA Ltd.				
Initial investment	**11**	**40.1**	11	40.1
Accumulated equity earnings	**5**		3	
Foreign currency translation adjustment	**(3)**		(1)	
	13		13	
	$ 30		$ 28	

13. Investments (continued)

Equity investments:

a. Gas Sur S.A.

The Corporation's 30.0 per cent share of Gas Sur S.A.'s 2009 net income was $1 million (2008 - $1 million) which was included in other revenue. The Corporation's foreign currency translation adjustment for 2009 resulted in a $2 million increase in the balance of the investment in Gas Sur S.A. (2008 - $1 million reduction). The initial cost of the investment exceeded the Corporation's underlying share of the net book value of Gas Sur S.A. by approximately $5 million (2008 - $5 million).

b. IGASAMEX USA Ltd.

The Corporation's 40.1 per cent share of IGASAMEX USA Ltd.'s 2009 net income was $2 million (2008 - $1 million) which was included in other revenue. The Corporation's foreign currency translation adjustment for 2009 resulted in a $2 million decrease in the balance of the investment in IGASAMEX USA Ltd. (2008 - $2 million reduction). The initial cost of the investment exceeded the Corporation's underlying share of the net book value of IGASAMEX USA Ltd. by approximately $5 million (2008 - $5 million).

14. Long-Term and Short-Term Debt

Years to Maturity	2009 Principal Outstanding (millions)	2009 Average Fixed Interest Rate (per cent)	2008 Principal Outstanding (millions)	2008 Average Fixed Interest Rate (per cent)
Province of Saskatchewan				
1 - 5	**$ 230**	**5.0**	$ 169	6.7
6 - 10	**242**	**4.5**	259	4.7
11 - 15	**34**	**6.7**	34	6.7
16 - 35	**285**	**6.5**	285	6.5
	791		747	
Unamortized premium/discount and issue costs	**(1)**		(1)	
Less due within one year	**(80)**		(39)	
Due to Province of Saskatchewan	**710**		707	
Other long-term debt	**5**	**13.5**	5	13.5
	$ 715		$ 712	

The effective interest rate on long-term debt was 5.4 per cent (2008 – 5.9 per cent).

14. Long-Term and Short-Term Debt (continued)

a. Maturity dates

Maturity dates are equivalent to interest rate repricing dates.

b. Principal repayments

Principal repayments due in each of the next five years are as follows: (millions)

2010	2011	2012	2013	2014
$ 80	$ -	$ 50	$ 50	$ 50

c. Short-term debt

During 2009, the Corporation borrowed funds on a short-term basis from the Province of Saskatchewan's General Revenue Fund at an average interest rate of 0.5 per cent (2008 – 2.5 per cent).

Short-term debt at December 31, 2009 consists of $108 million (2008 - $164 million) that was due to the Province of Saskatchewan's General Revenue Fund with an interest rate of 0.3 per cent (2008 – 1.4 per cent).

15. Accounts Payable

	2009	2008
	(millions)	
Supplier payables	$ 61	$ 73
Interest payable	8	9
Other payables	57	50
	$ 126	$ 132

16. Asset Retirement Obligations

The Corporation has estimated the future costs of decommissioning certain natural gas facilities. The timing of future decommissioning and settlement dates of these obligations are conditional upon the Corporation's intended use for these facilities. For purposes of estimating the fair value of these obligations, as at December 31, a settlement period ranging from 2010 to 2022 has been assumed.

As at December 31, 2009 the estimated future cash flows required to settle these obligations were $10 million (2008 - $10 million), which were discounted to $8 million (2008 - $8 million) applying credit adjusted risk free rates ranging from 3.2 to 6.4 per cent.

17. Accumulated Other Comprehensive Loss

The balance in accumulated other comprehensive loss consists of the following:

	2009	2008
	(millions)	
Unrealized losses on translating financial statements of self-sustaining foreign operations	$ (3)	$ (3)

18. Equity Advances

The Corporation does not have share capital. However, the Corporation has received advances from CIC to form its equity capitalization. The advances reflect an equity investment in the Corporation by CIC.

19. Commitments and Contingencies

a. Guarantees

SaskEnergy has granted a guarantee related to certain obligations established under the Gas Sur S.A. Shareholders' Agreement. The guarantee is expressly limited to $5 million (United States dollars).

b. Letters of credit

i. The Corporation, through its subsidiary SaskEnergy Mexican Holdings Ltd., has posted a $4 million (United States dollars) letter of credit in favour of Scotiabank Inverlat S.A., a Mexican bank. The letter of credit is used as collateral for the Corporation's share of a line of credit issued to IGASAMEX USA Ltd. Scotiabank Inverlat S.A. may draw upon this letter of credit if IGASAMEX USA Ltd. defaults under the terms of its loan agreement with Scotiabank Inverlat S.A.

ii. The Corporation has posted a $10 million letter of credit with NGX Financial Inc. (NGX) as security for natural gas purchase and sales transactions conducted by SaskEnergy on the NGX natural gas exchange in Alberta. NGX may draw on the letter of credit if SaskEnergy fails to make timely payment for, or delivery of, natural gas as per the related contract.

iii. The Corporation has posted an $8 million letter of credit with the City of Medicine Hat as security for natural gas purchases. The City of Medicine Hat may draw on the letter of credit if SaskEnergy fails to make timely payment for natural gas as per the related natural gas purchase agreement.

19. Commitments and Contingencies (continued)

c. Leases

Future payments under operating leases are as follows: (millions)

2010	2011	2012	2013	2014	Thereafter	Total
$ 5	$ 3	$ -	$ -	$ -	$ 1	$ 9

20. Revenue Collected For and Paid to Municipalities

a. Natural gas distribution

In accordance with the provisions of *The SaskEnergy Act*, SaskEnergy is required to remit to 109 urban municipalities an amount calculated as either five per cent or three per cent of natural gas sales to customers within the respective municipality. These municipal payments are charged to customers and reported as revenue collected for municipalities. These amounts are remitted to the respective municipalities and reported as payments to municipalities on the consolidated statement of income. In 2009, revenue collected for and paid to municipalities was $24 million (2008 - $23 million).

b. Natural gas transmission

In accordance with the provisions of *The SaskEnergy Act*, TransGas Limited (TransGas) is required to collect, from specific customers, an amount based on the value of natural gas transported on their behalf. TransGas in turn pays the revenue collected to those municipalities. The revenue collected is classified as revenue collected for municipalities, and the amount paid is classified as payments to municipalities on the consolidated statement of income. In 2009, revenue collected for and paid to municipalities was $2 million (2008 - $2 million).

21. Other Revenue

	2009	2008
	(millions)	
Royalty revenue	$ 3	$ 6
Natural gas and liquid sales	4	8
Income from investments accounted for by the equity method	3	2
	$ 10	$ 16

22. Interest Expense

	2009	2008
	(millions)	
Interest expense on long-term debt	$ 44	$ 41
Interest expense on short-term debt	1	4
Amortization of debt premium/discount and issue costs	1	1
Debt retirement funds earnings	(2)	(3)
Debt retirement funds fair value adjustment	-	1
Interest capitalized	(1)	(1)
Interest allocation to commodity cost of gas sold	-	(2)
	$ 43	$ 41

Interest paid during 2009 on long-term debt was $45 million (2008 - $44 million).

23. Amortization

	2009	2008
	(millions)	
Intangible assets	$ 5	$ 4
Property, plant and equipment	56	55
Customer capital contributions	(4)	(4)
	$ 57	$ 55

The estimated service lives are based on depreciation studies with annual reviews for reasonableness.

The composite rate of amortization (excluding the effect of customer capital contributions amortization) was 3.4 per cent during 2009 (2008 - 3.3 per cent).

24. Saskatchewan Taxes

	2009	2008
	(millions)	
Corporate capital tax	$ 7	$ 6
Property taxes and other	1	2
	$ 8	$ 8

The above amounts do not include Saskatchewan Provincial Sales Tax payments.

25. Net Change in Non-Cash Working Capital

	2009	2008
	(millions)	
Accounts receivable	**$ 47**	$ (31)
Natural gas in storage held for resale	**(59)**	(50)
Inventories of supplies	**7**	(4)
Accounts payable	**(20)**	2
	$ (25)	$ (83)

26. Related Party Transactions

Included in these financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to the Corporation by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as related parties).

Routine operating transactions with these related parties are settled at exchange amounts which approximate prevailing market prices under normal trade terms. Transactions during the year, and amounts outstanding at year end, are as follows:

	2009	2008
	(millions)	
Revenue	**$ 43**	$ 48
Operating expenses	**34**	32
Customer capital contributions	**32**	36
Accounts receivable	**3**	3
Accounts payable	**24**	10

In addition, the Corporation pays Saskatchewan Provincial Sales Tax to the Province of Saskatchewan on all of its taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

27. Employee Future Benefits

a. Pension plans

Employees of the Corporation are members of either a defined contribution (the "Public Employees Pension Plan") or a defined benefit pension plan (the "Power Corporation Superannuation Plan"). The Corporation's obligations are limited to making contributions for employees' current service. Saskatchewan Power Corporation, a related Crown corporation, is responsible for any unfunded liabilities in the defined benefit plan.

During the year, the Corporation contributed $5 million (2008 - $4 million) on behalf of employees for current services.

b. Retiring allowance plan

The amounts related to the unfunded defined benefit retiring allowance plan for executive, management employees and members of the Communications, Energy and Paperworkers Union (CEP), Local 649 are as follows:

	2009	2008
	(millions)	
Accrued benefit liability	**$ 14**	$ 14
Benefits paid during the year	**1**	1
Net expense	**2**	(1)

The Corporation measures its accrued benefit liability as at December 31 of each year with an annual actuarial valuation. The significant actuarial assumptions adopted in measuring the Corporation's accrued benefit liability at December 31 are:

	2009	2008
Discount rate	**5.2 per cent**	7.1 per cent
Inflation rate	**2.5 per cent**	2.5 per cent
Average remaining employee service life	**7.9 years**	8.3 years

For employees who are members of the CEP, the length of service earned for the purpose of the retiring allowance plan is equal to their service up to and including December 31, 2004 less service time converted to other employee benefits. Remaining entitlements, if any, under the retiring allowance plan will be paid out to CEP members upon their retirement in accordance with the terms of the plan.

For management employees, the length of service earned for the purpose of the retiring allowance plan is equal to their service up to and including December 31, 2005. Entitlements under the retiring allowance plan will be paid out to management employees upon their retirement in accordance with the terms of the plan.

28. Rate Regulation

Rate regulation did not cause the Corporation to account for transactions or events differently than it would have in the absence of rate regulation, except where specifically noted. The impact of rate regulation on the Corporation was as follows:

a. SaskEnergy Incorporated

By virtue of legislation, SaskEnergy has the authority to sell and the exclusive authority to distribute natural gas within Saskatchewan. In accordance with an Order in Council, the rates charged to customers for both the sale of the commodity and the distribution of natural gas are subject to review by the Saskatchewan Rate Review Panel (SRRP). The Provincial Cabinet has the authority to establish SaskEnergy's commodity and delivery rates and accordingly takes into consideration recommendations from the SRRP.

Based on the foregoing rate-setting process, revenue recognition policies for commodity and delivery revenue are as described in note 2h. SaskEnergy's delivery revenue was $181 million for 2009 (2008 - $171 million) and commodity revenue was $411 million for 2009 (2008 - $418 million).

Cost of gas sold is accounted for in accordance with the policy described in note 2i.

For those commodity sales subject to the rate-setting process described above, commodity rates charged to customers are based on the principle that SaskEnergy neither realizes a gain nor incurs a loss on sales of natural gas. Accordingly, SaskEnergy maintains a record of the differences between commodity revenue and cost of natural gas sold and accumulates these differences in a notional account referred to as the Gas Cost Variance Account (GCVA). The rate-setting process contemplates the balances reflected in the GCVA being recovered from or refunded to customers through future rate decisions of the Provincial Cabinet.

In accordance with the foregoing rate-setting process, commodity revenue is reflected in these financial statements based on the rates approved by the Provincial Cabinet applying the accounting policies described in note 2h. The amounts accumulated in the GCVA are not reflected in these financial statements.

The Provincial Cabinet requires that the amounts in the GCVA be audited annually by the Office of the Provincial Auditor of Saskatchewan.

b. TransGas Limited (TransGas)

By virtue of legislation, TransGas has the exclusive authority to transport natural gas within Saskatchewan. Accordingly, the Provincial Cabinet has the authority to set transportation rates charged to shippers. Transportation rates are not subject to review by the SRRP.

Based on the foregoing rate-setting process, revenue recognition policies for transportation revenue are as described in note 2h. TransGas transportation revenue was $64 million for 2009 (2008 - $60 million).

28. Rate Regulation (continued)

c. Many Islands Pipe Lines (Canada) Limited (MIPL)

The business activities of MIPL are regulated by the National Energy Board.

Revenue recognition policies for MIPL transportation revenue are as described in note 2h. MIPL transportation revenue was $1 million for 2009 (2008 - $1 million).

d. Swan Valley Gas Corporation (SVGC)

The business activities of SVGC are regulated by the Manitoba Public Utilities Board. SVGC's delivery revenue was $1 million for 2009 (2008 - $1 million) and commodity revenue was $1 million for 2009 (2008 - $1 million).

29. Joint Venture

The following amounts have been included in these consolidated financial statements with respect to the Corporation's 50 per cent proportionate share of the Kisbey Gas Gathering and Processing Facility, an unincorporated joint venture:

a. Consolidated statement of financial position

	2009	2008
	(millions)	
Property, plant and equipment	$ 16	$ 5
Current liabilities	(3)	-
Investment in joint venture	$ 13	$ 5

b. Consolidated statement of income

	2009	2008
	(millions)	
Revenue	$ 1	$ 2
Expenses	(1)	(1)
Income from joint venture	$ -	$ 1

29. Joint Venture (continued)

c. Consolidated statement of cash flows

	2009	2008
	(millions)	
Cash provided by operating activities	$ 3	$ 1
Cash used in investing activities	(10)	-
Increase/(decrease) in cash	$ (7)	$ 1

30. Comparative Figures

Certain of the prior year's figures have been reclassified to conform with the current year's presentation.

TRANSGAS LIMITED

FINANCIAL STATEMENTS

December 31, 2009

Deloitte

Deloitte & Touche LLP
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Regina SK S4P 3Z8
Canada

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Auditors' Report

To the Shareholder of TransGas Limited

We have audited the statement of financial position of TransGas Limited as at December 31, 2009 and the statements of income and retained earnings, comprehensive income, accumulated other comprehensive income and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP.

Chartered Accountants

Regina, Saskatchewan
February 25, 2010

TRANSGAS LIMITED
Statement of Financial Position

As at December 31
(thousands of dollars)

	Notes	2009	2008
Assets			
Current assets			
Cash		$ **22,360**	$ 39,545
Accounts receivable	5	**9,334**	9,218
Intercompany accounts receivable		**5,019**	5,707
Natural gas in storage held for resale	6	**12,152**	12,486
Inventories of supplies	7	**1,887**	1,849
Debt retirement funds	10	**9,402**	-
Fair value of derivative instruments	15	**1,137**	8,154
		61,291	76,959
Intangible assets	8	**4,056**	5,741
Property, plant and equipment	9	**515,726**	487,063
Natural gas in storage held for resale and operations		**33,181**	33,181
Debt retirement funds	10	**23,780**	28,526
		$ **638,034**	$ 631,470
Liabilities and Shareholder's Equity			
Current liabilities			
Accounts payable	11	$ **28,657**	$ 22,078
Intercompany accounts payable		**15,736**	27,101
Dividends payable		**-**	3,684
Current portion of long-term debt	12	**80,000**	22,422
Fair value of derivative instruments	15	**2,712**	4,204
		127,105	79,489
Long-term debt	12	**305,469**	352,057
Asset retirement obligations	13	**5,309**	5,111
		437,883	436,657
Shareholder's equity			
Retained earnings		**196,150**	190,439
Accumulated other comprehensive income		**-**	373
		196,150	190,812
Share capital	14	**4,001**	4,001
		200,151	194,813
		$ **638,034**	$ 631,470

(See accompanying notes)

On behalf of the Board:

Director

Director

TRANSGAS LIMITED
Statement of Income and Retained Earnings

Years ended December 31
(thousands of dollars)

	Notes	2009	2008
Revenue			
Transportation and storage		$ 130,355	$ 119,382
Gas marketing sales		41,160	72,235
Revenue collected for municipalities	16	1,723	2,413
Other	17	4,047	7,287
		177,285	201,317
Expenses			
Gas marketing cost of gas sold		41,426	66,661
Operating and maintenance		63,134	64,498
Payments to municipalities	16	1,723	2,413
Interest	18	21,463	21,171
Amortization	19	26,875	26,365
Saskatchewan taxes	20	2,643	3,013
		157,264	184,121
Net income		20,021	17,196
Retained earnings, beginning of year		190,439	185,155
Change in accounting policy	3	-	409
Dividends		(14,310)	(12,321)
Retained earnings, end of year		$ 196,150	$ 190,439

(See accompanying notes)

TRANSGAS LIMITED
Statement of Comprehensive Income

Years ended December 31
(thousands of dollars)

	2009	2008
Net income	$ **20,021**	$ 17,196
Other comprehensive loss		
Losses on derivative instruments designated as hedges for accounting purposes in prior years transferred to net income in the current year	**(373)**	-
Comprehensive income	$ **19,648**	$ 17,196

TRANSGAS LIMITED
Statement of Accumulated Other Comprehensive Income

Years ended December 31
(thousands of dollars)

	2009	2008
Accumulated other comprehensive income, beginning of year	$ **373**	$ 373
Other comprehensive loss	**(373)**	-
Accumulated other comprehensive income, end of year	$ -	$ 373

(See accompanying notes)

TRANSGAS LIMITED
Statement of Cash Flows

Years ended December 31
(thousands of dollars)

	Notes	2009	2008
Operating Activities			
Net income		$ 20,021	$ 17,196
Add (deduct) items not requiring an outlay of cash			
Amortization		26,875	26,365
Change in fair value of derivative instruments		5,525	(2,480)
Debt retirement funds earnings		(1,660)	(1,274)
Asset retirement obligations		198	211
Other		524	1,059
		51,483	41,077
Net change in non-cash working capital related to operations	21	(18,205)	18,239
Cash provided by operating activities		33,278	59,316
Investing Activities			
Net additions to property, plant and equipment		(55,689)	(60,622)
Net additions to intangible assets		(185)	(819)
Capital contributions and deposits received	9	16,308	34,005
Decrease in natural gas in storage - non-current		-	(9)
Cash used in investing activities		(39,566)	(27,445)
Financing Activities			
Decrease in bank indebtedness		-	(12,425)
Proceeds on issue of notes payable to parent		33,000	63,991
Repayment of notes payable to parent		(22,422)	(28,718)
Debt retirement funds installments		(3,481)	(3,231)
Increase in financing costs		-	(198)
Dividends paid		(17,994)	(11,745)
Cash provided by (used in) financing activities		(10,897)	7,674
(Decrease) increase in cash during the year		(17,185)	39,545
Cash position, beginning of year		39,545	-
Cash position, end of year		$ 22,360	$ 39,545

(See accompanying notes)

TransGas Limited
Notes to the Financial Statements
December 31, 2009

1. Status of the Corporation

TransGas Limited (the Corporation) was incorporated on March 30, 1988 under *The Saskatchewan Business Corporations Act*. TransGas Limited is a wholly owned subsidiary of SaskEnergy Incorporated (SaskEnergy), a Saskatchewan provincial Crown corporation, and therefore is not subject to Federal or Provincial income taxes in Canada.

The affairs of the Corporation are managed by its Board of Directors and the management of its parent, SaskEnergy.

The Corporation operates a natural gas transmission pipeline system within Saskatchewan providing open access transmission services as well as gathering, compression and natural gas processing to end use customers, marketers and producers. The Corporation has the legislated franchise for the transmission of natural gas within Saskatchewan. The Corporation also provides natural gas storage services.

2. Summary of Significant Accounting Policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and require management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management periodically evaluates the estimates and assumptions used based on past experience and other factors considered reasonable under the circumstances. The inherent uncertainty involved in making such estimates and assumptions may impact the actual results reported in future periods. Due to market volatility, changes in future conditions in the near term could result in a material change. Significant areas requiring the use of estimates and assumptions are described in the following summary of significant accounting policies. The impact of rate regulation on the application of GAAP is described in note 24. The following accounting policies are considered to be significant:

a. Natural gas in storage

Natural gas in storage is stated at the lower of cost and net realizable value. Cost is determined on a weighted average cost basis. Net realizable value is determined using near month and forward natural gas market prices as appropriate.

b. Inventories of supplies

Inventories of supplies consist primarily of general stock used for construction and maintenance and are recorded at the lower of average cost and net realizable value. Replacement cost is used as management's best estimate of the net realizable value.

c. Intangible assets

Intangible assets includes computer software that was previously reported as property, plant and equipment (note 3). Intangible assets are stated at cost and include all direct costs related to the development of the assets. Amortization expense is calculated on a straight-line basis over the estimated service life of the asset. The amortization rate is 8.3 to 20.0 per cent.

2. Summary of Significant Accounting Policies (continued)

d. Property, plant and equipment

Property, plant and equipment is stated at cost and includes all direct costs related to the development of the assets, and an allowance for interest costs related to financing construction of the related assets.

The costs of renewals and betterments which extend the economic useful life of assets are capitalized.

Retirement or sale of a major item or class of property, plant and equipment, is accounted for by relieving the asset accounts of the associated cost and accumulated amortization. The difference between the proceeds and the net book value of the assets disposed is included in income for the current period.

Other asset retirements are recorded by reducing the account by the cost of the asset and charging this amount, net of proceeds received, to accumulated amortization.

Amortization expense is calculated on a straight-line basis over the estimated service life of the asset. The amortization rates are as follows: (in per cent)

Transmission and storage	2.5 to 2.6
Gathering, treatment and compression	2.5 to 3.5
Computer hardware	20.0 to 33.3
Vehicles, equipment and other	4.0 to 11.1

Customer capital contributions relate to construction of new service connections. These contributions from customers are amortized on a straight-line basis over the estimated service life of the related asset.

e. Asset retirement obligations

Where a legal obligation exists, the Corporation recognizes the fair value of its asset retirement obligations relating to the future decommissioning of certain natural gas facilities as a liability in the period in which the obligation is incurred provided a reasonable estimate of fair value can be determined. The liability is increased annually for the passage of time through accretion expense. The associated asset retirement cost is added to the carrying amount of the related asset and amortized over the estimated useful life of the related asset.

Due to the long-term nature of the assumptions made in the cost estimates, there could be a material adjustment to income in future reporting periods. Therefore, revisions will be made periodically to reflect more accurate estimates.

2. Summary of Significant Accounting Policies (continued)

f. Financial instruments

The Corporation classifies its financial instruments into one of the following categories: 1) held-for-trading, 2) held-to-maturity, 3) loans and receivables, 4) available-for-sale, and 5) other liabilities.

All financial instruments are measured at fair value upon initial recognition. The fair value of a financial instrument is the amount at which the financial instrument could be exchanged in an arm's length transaction between knowledgeable and willing parties under no compulsion to act.

Financial assets and liabilities classified as held-for-trading are subsequently measured at fair value with changes in fair value recognized in net income. Financial assets classified as available-for-sale are subsequently measured at fair value with changes in fair value recognized in other comprehensive income until the financial assets is sold or other than temporarily impaired at which time the cumulative gain or loss is recognized in net income. Financial assets classified as held-to-maturity and loans and receivables as well as financial liabilities classified as other liabilities are subsequently amortized using the effective interest method. All derivatives are recognized as an asset or liability as of the financial statement date.

Transaction costs related to held-for-trading financial assets and liabilities are expensed as incurred. For all other financial instruments, transaction costs are included in the initial carrying amount.

Cash is classified as held-for-trading. Accounts receivable and intercompany accounts receivable are classified as loans and receivables. Carrying value approximates fair value due to the short-term nature of these instruments. The debt retirement funds are classified as held-for-trading assets and recorded at fair value. The change in the fair value of the debt retirement funds is recognized in interest expense.

Accounts payable, intercompany accounts payable and dividends payable are classified as other liabilities. Carrying value approximates fair value due to the short-term nature of these instruments. Long-term debt is classified as other liabilities and recorded at amortized cost. The related debt premium, discount and issue costs are included in the carrying value of the long-term debt and are recognized in interest expense using the effective interest rate method.

Derivative financial instruments not designated as a hedge are classified as held-for-trading and are recorded at fair value in the statement of financial position in current assets or current liabilities as applicable. The change in the fair value of these derivatives is recorded in net income and classified within the revenue or expense category to which they relate. The revenue and expense categories impacted are described in note 15.

The Corporation classifies the fair value of its financial instruments and derivatives according to the following hierarchy based on the amount of observable inputs used to value the instruments.

2. Summary of Significant Accounting Policies (continued)

i. Level 1 - Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis. The Corporation does not use Level 1 inputs for any of its recurring fair value measurements.

ii. Level 2 - Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reported date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value, volatility factors and broker quotations, which can be substantially observed or corroborated in the marketplace. Instruments in this category include nonexchange traded derivatives such as over-the-counter physical forwards and options, including those which have prices similar to quoted market prices.

iii. Level 3 - Valuations in this level are those with inputs which are less observable, unavailable or where the observable data does not support the majority of the instrument's fair value. The Corporation does not use Level 3 inputs for any of its recurring fair value measurements.

g. Revenue recognition

Revenue is recognized when transportation, transportation-related services and storage are provided to customers and the ultimate collection is reasonably assured. An estimate of transportation, storage and related services rendered, but not billed is included in revenue.

Revenue from natural gas marketing is recorded upon completion of the delivery of natural gas to the customer. The Corporation acts as a principal in these natural gas marketing transactions, taking title to the natural gas purchased for resale, and assuming the risks and rewards of ownership. Changes in the fair value of outstanding gas marketing sales contracts are recorded as gains or losses in the period of change.

h. Cost of gas sold

The cost of gas sold includes the cost of purchasing natural gas in the open market, fair value adjustments on outstanding non-financial derivative instruments, transportation and direct operating costs related to supply acquisition.

i. Gas marketing

The Corporation may enter into contracts that require either the physical delivery (sale) or receipt (purchase) of natural gas in a future period. The gain or loss on these transactions is the difference between the sales revenue recognized in the period and the average cost of natural gas required to fulfill those sales.

Changes in the fair value of the contracts due to a change in market prices up to the date of settlement are recorded as gains or losses in gas marketing sales or gas marketing cost of gas sold in the period of change.

2. Summary of Significant Accounting Policies (continued)

j. Employees' future benefits

i. Pension plans

The Corporation provides pension plans for all eligible employees, including a defined contribution pension plan and a defined benefit pension plan.

Under both multi-employer plans, the Corporation's obligations are limited to making regular payments to the plans for current services. When made, these contributions are charged to expenses.

ii. Retiring allowance plan

The cost of future retirement allowance benefits earned by employees under this plan is actuarially determined using the projected benefit method and management's best estimates.

k. Future accounting policy changes

The Canadian Institute of Chartered Accountants (CICA) has issued several new Handbook Sections: Section 1582 – Business Combinations, Section 1601 – Consolidated Financial Statements and Section 1602 – Non-Controlling Interests for fiscal years beginning on or after January 1, 2011. These sections replace existing Handbook Sections 1581 and 1600 and establish standards for the accounting for business combinations, preparation of consolidated financial statements and accounting for a non-controlling interest in a subsidiary. The Corporation is evaluating the potential impacts of these accounting recommendations and does not anticipate a significant impact on the Corporation's financial statements.

The CICA has announced that publicly accountable Canadian entities will be required to prepare financial information in accordance with International Financial Reporting Standards (IFRS) effective January 1, 2011. Although IFRS are a principle-based set of standards, similar to current GAAP, there are areas where the accounting treatment differs from Canadian GAAP. The Corporation is evaluating the potential impacts of IFRS on the Corporation's financial statements.

3. Changes in Accounting Policies

Effective January 1, 2009, the Corporation adopted the CICA Handbook Section 3064 – Goodwill and Intangible Assets. This section supersedes Section 3062 – Goodwill and Other Intangible Assets and Section 3450 – Research and Development Costs. This section establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The standard requires retrospective application with restatement of prior year comparative results. Intangible assets are to be presented and disclosed separately in the financial statements and in the notes to the financial statements.

3. Changes in Accounting Policies (continued)

Upon the adoption of the new standard, the Corporation is presenting and disclosing intangible assets separately in the financial statements and in the notes to the financial statements. The impact of applying this change in accounting policy effective January 1, 2009 was as follows:

	Dec. 31 2008 (thousands)
Intangible assets (net)	$ 5,741
Property, plant and equipment (net)	(5,741)
Total assets	$ -
Total liabilities and shareholder's equity	$ -

The CICA implemented revisions to Handbook Section 3862 "Financial Instruments – Disclosures" for fiscal years ending after September 30, 2009. These revisions are intended to align the disclosure requirements for financial instruments to the maximum extent possible with the disclosure required under IFRS. These revisions require additional disclosure based on a three level hierarchy that reflects the significance of inputs used in measuring fair value. The new required disclosure is provided in Note 2 and 15.

4. Capital Disclosure

The Corporation's objective when managing its capital is to maintain financial stability through the effective management of liquidity and capital structure. Ensuring financial stability is critical to providing safe reliable service to businesses and industries.

The Corporation finances its capital requirements through internally generated funds and debt. The Corporation has a Credit Facility Agreement with its parent, SaskEnergy, whereby it may borrow $100 million on a revolving basis. The Corporation pays an interest rate determined by SaskEnergy which is equivalent to SaskEnergy's average rate on short-term notes borrowed from the Province of Saskatchewan. Under this agreement the Corporation may make repayments at any time without penalty and SaskEnergy may terminate the loans without notice. In addition, the Corporation may borrow long-term debt from its parent, through the Subsidiary Debt Agreement, upon approval by its Board of Directors.

The Corporation's capital consists of long-term debt having a term to maturity greater than one year and shareholder's equity.

The Corporation monitors capital on the basis of the debt ratio. The current long-term per cent debt ratio target is 65 per cent, which is consistent with the prior year and comparable to publically traded natural gas pipeline utilities. The Corporation's objectives, polices and processes for managing its capital as well as the debt ratio target are consistent with the prior year.

4. Capital Disclosure (continued)

The per cent debt ratio is calculated as net debt divided by end of year capitalization as follows:

	2009	2008
	(thousands)	
Gross long-term debt	$ 385,469	$ 374,479
Debt retirement funds	(33,182)	(28,526)
Cash	(22,360)	(39,545)
Total net debt	329,927	306,408
Share capital	4,001	4,001
Retained earnings	196,150	190,439
Total capital	$ 530,078	$ 500,848
Debt ratio	62.2%	61.2%

The Corporation complied with all externally imposed requirements on its capital for the year ended December 31, 2009.

5. Accounts Receivable

	2009	2008
	(thousands)	
Unbilled revenue	$ 6,482	$ 6,239
Trade accounts	1,524	2,145
Other receivables	1,328	834
	$ 9,334	$ 9,218

6. Natural Gas in Storage Held for Resale

During the year, $42,490 thousand of natural gas in storage held for resale was recognized as cost of gas sold (2008 - $62,877 thousand).

With the decline in natural gas market prices, the net realizable value of gas marketing natural gas in storage has fallen below cost. There was a $424 thousand write-down of natural gas in storage held for resale to its net realizable value included in gas marketing cost of gas sold. If natural gas prices rise in the future, there will a reversal of the write-down. There were no net realizable value adjustments to inventory recorded in 2008.

7. Inventories of Supplies

During the year, $12,192 thousand of inventories of supplies were consumed. (2008 - $4,062 thousand).

8. Intangible Assets

	2009			2008		
	(thousands)					
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Computer software	**24,222**	**20,166**	**4,056**	24,075	18,334	5,741
	$ 24,222	**$ 20,166**	**$ 4,056**	$ 24,075	$ 18,334	$ 5,741

Intangible assets acquired during the year were $77 thousand (2008 - $178 thousand)
Intangible assets developed during the year were $108 thousand (2008 - $641 thousand)

9. Property, Plant and Equipment

	2009			2008		
	(thousands)					
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Transmission and storage	**$ 714,647**	**$ 247,259**	**$ 467,388**	$ 665,681	$ 229,420	$ 436,261
Gathering, treatment and compression	**173,711**	**80,112**	**93,599**	159,951	73,561	86,390
Vehicles, equipment and other	**38,303**	**23,040**	**15,263**	48,628	33,039	15,589
Construction in progress	**39,311**	**-**	**39,311**	48,671	-	48,671
	$ 965,972	**$ 350,411**	**615,561**	$ 922,931	$ 336,020	586,911
Less:						
Unamortized customer capital contributions			**99,835**			99,848
			$ 515,726			$ 487,063

9. Property, Plant and Equipment (continued)

Customer capital contributions are required to be paid by customers to the Corporation to aid in construction of certain customer-specific facilities in accordance with established business policies:

	2009	2008
	(thousands)	
Balance, beginning of year	**$ 99,848**	$ 67,599
Contributions received, net	**2,021**	34,005
Amortization of contributions	**(2,034)**	(1,756)
Balance, end of year	**$ 99,835**	$ 99,848

Included in transmission assets is an amount of $13,766 thousand (2008 - $10,649 thousand) received from SaskEnergy for customer capital contributions in aid of construction of certain transmission facilities. Amortization of customer capital contributions related to this amount in 2009 was $155 thousand (2008 - $108 thousand).

10. Debt Retirement Funds

Under conditions attached to certain advances from SaskEnergy, the Corporation is required (on an annual basis) to invest an amount equal to one per cent of the related outstanding debt. This investment is referred to as a debt retirement fund. These debt retirement funds are administered by Saskatchewan's Ministry of Finance. The investments held in these debt retirement funds are primarily Federal and Provincial Government debt instruments. The yield on these investments was 5.4 per cent for 2009 (2008 - 5.8 per cent). Debt retirement funds are held-for-trading assets and are recorded at fair value on the statement of financial position.

Amounts required to be invested in the debt retirement funds in each of the next five years are as follows: (thousands)

2010	2011	2012	2013	2014
$ 3,811	$ 3,011	$ 3,011	$ 3,011	$ 3,011

11. Accounts Payable

	2009	2008
	(thousands)	
Supplier payables	**$ 7,743**	$ 14,838
Other payables	**20,914**	7,240
	$ 28,657	$ 22,078

12. Long -Term Debt

Years to Maturity	2009 Principal Outstanding (thousands)	2009 Average Fixed Interest Rate (per cent)	2008 Principal Outstanding (thousands)	2008 Average Fixed Interest Rate (per cent)
Notes payable to parent				
1 - 5	**$ 105,000**	**5.9**	$ 102,422	7.0
6 - 10	**176,112**	**4.5**	168,112	4.7
16 - 35	**100,000**	**7.8**	100,000	7.8
	381,112		370,534	
Unamortized premium/issue costs	**(458)**		(870)	
Less due within one year	**(80,000)**		(22,422)	
	300,654		347,242	
Other debt	**4,815**	**13.5**	4,815	13.5
	$ 305,469		$ 352,057	

The effective interest rate for notes payable to parent was 5.7 percent (2008 - 6.1 percent).

a. Maturity dates

Maturity dates are equivalent to interest rate repricing dates.

b. Principal repayments

Principal repayments due in each of the next five years are as follows: (thousands)

2010	2011	2012	2013	2014
$ 80,000	$ -	$ -	$ -	$ 25,000

13. Asset Retirement Obligations

The Corporation has estimated the future costs of decommissioning certain natural gas facilities. The timing of future decommissioning and settlement dates of these obligations are conditional upon the Corporation's intended use for these facilities. For purposes of estimating the fair value of these obligations, as at December 31, a settlement period ranging from 2010 to 2016 has been assumed.

As at December 31, the estimated future cash flows required to settle these obligations were $6,140 thousand (2008 - $6,140 thousand) were discounted to $5,309 thousand (2008 - $5,111 thousand) applying credit adjusted risk free rates ranging from 3.2 percent to 6.4 per cent.

	2009	2008
	(thousands)	
Asset retirement obligations, beginning of year	$ 5,111	$ 4,900
Accretion expense	198	211
Asset retirement obligations, end of year	$ 5,309	$ 5,111

14. Share Capital

Authorized share capital consists of an unlimited number of Class A common shares without nominal or par value. Thirty (30) shares (2008 - thirty) are issued and outstanding.

15. Financial Instruments and Risk Management

a. Financial Instruments

The fair value of the Corporation's financial instruments is listed below:

	2009		2008	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(thousands)			
Other liabilities				
Long term debt	$ 385,469	$ 439,263	$ 374,479	$ 432,352
Held-for-trading				
Debt retirement funds	33,182	33,182	28,526	28,526

15. Financial Instruments and Risk Management (continued)

The fair value of the above instruments was based on the following:

i. Long term debt – The present value of future cash flows discounted at the market rate of interest for the equivalent Province of Saskatchewan debt instruments.

ii. Debt retirement funds – The fair value measurements are calculated using Level 2 inputs. The market value of the investments held in the debt retirement fund is determined by Saskatchewan's Ministry of Finance using information provided by investment dealers. To the extent possible, valuations reflect indicative secondary pricing for these securities. In all other circumstances, valuations are determined with reference to similar actively traded instruments.

The fair value of other financial instruments, including cash, accounts receivable, intercompany accounts receivable, accounts payable and inter-company accounts payable approximate their carrying values due to the short-term nature of the instruments.

b. Natural gas derivative instruments

The fair value of natural gas derivative instruments held-for-trading is calculated daily and is based on quoted market prices. The Corporation obtains information from sources such as the New York Mercantile Exchange and the Natural Gas Exchange, independent price publications and over-the-counter broker quotes. All of the Corporation's recurring fair value measurements are calculated using Level 2 inputs. For physical natural gas contracts notional values are an approximation of future net cash flows based on contract price multiplied by contract quantity. Where contract prices are referenced to an index price that has not yet been fixed, the market price at December 31, 2009 has been used to estimate the contract price. At December 31, 2009, all derivative assets and liabilities held-for-trading are recorded on the statement of financial position at fair value.

As at December 31, 2009 natural gas derivative instruments held-for-trading had the following fair values, notional values and maturities.

	2010	2011	2012	2013	2014	Total
			(thousands)			
Physical natural gas contracts						
Fair value	$ (1,575)	$ -	$ -	$ -	$ -	$ (1,575)
Notional value	$ 8,200	$ -	$ -	$ -	$ -	$ 8,200

15. Financial Instruments and Risk Management (continued)

c. Changes in fair value

The fair value of derivative instruments is presented on the statement of financial position as follows:

	2009	2008
	(thousands)	
Fair value of derivative instrument assets	$ 1,137	$ 8,154
Fair value of derivative instrument liabilities	(2,712)	(4,204)
	$ (1,575)	$ 3,950

The change in fair value of financial and derivative instruments is recorded in net income within the relevant revenue or expense category. For the year ended December 31 the increase (decrease) in net income of these unrealized gains and losses was as follows:

	2009	2008
	(thousands)	
Derivative instruments		
Gas marketing sales	$ (7,383)	$ 7,599
Gas marketing cost of gas sold	2,230	(4,952)
	(5,153)	2,647
Financial instruments		
Gas marketing cost of gas sold	(1,166)	1,166
Interest expense	485	(307)
Increase in net income	$ (5,834)	$ 3,506

d. Risk management

The Corporation uses various derivative financial instruments to manage the risks associated with its operating exposures to fluctuations in the price of natural gas. A Corporate Derivatives Policy and specific risk management strategies establish the guidelines within which such derivative financial instruments may be used. The objectives, policies and processes for managing risk were consistent with the prior year.

i. Natural gas price risk

The Corporation may manage the risk associated with the purchase and sale price of natural gas. The purchase or sale price may be fixed within the contract, or referenced to a floating index price. When the price is referenced to a floating index price, natural gas derivative instruments may be used to fix the settlement amount.

15. Financial Instruments and Risk Management (continued)

Based on the Corporation's December 31, 2009 closing positions, an increase of $1.00 per Gigajoule in natural gas prices would have decreased net income, through an increase in the fair value of natural gas derivative instruments, by $1,844 thousand. Conversely, a decrease of $1.00 per Gigajoule would have increased net income, through a decrease in the fair value of natural gas contracts, by $1,844 thousand.

ii. Liquidity risk

Liquidity risk is the risk that the Corporation is unable to meet its financial obligations as they become due. For financial obligations, the Corporation has credit facilities available to refinance maturities in excess of anticipated operating cash flows. The following summarizes the contractual maturities of the Corporation's financial obligations as at December 31, 2009:

	6 months or less	7-12 months	1-2 years	3-5 years	More than 5 years
			(thousands)		
Accounts payable	$ 28,657	$ -	$ -	$ -	$ -
Intercompany accounts payable	15,736	-	-	-	-
Dividends payable	-	-	-	-	-
Derivative instruments	9,763	-		-	-
Long-term debt	10,951	90,951	16,983	75,292	393,056
Debt retirement funds installments	1,826	1,985	3,011	9,033	18,817
	$ 66,933	$ 92,936	$ 19,994	$ 84,325	$ 411,873

The long-term debt obligations include principal and interest payments.

iii. Credit risk

The Corporation is exposed to credit risk through cash, accounts receivable, debt retirement funds and derivative instrument assets.

The Corporation extends credit to its customers in the normal course of business and is at risk of loss in the event of non-performance by counterparties on certain of the financial instruments described above. To reduce its credit risk, the Corporation has established policies and procedures to monitor and limit the amount of credit extended to its customers and counterparties and may require letters of credit and other forms of security. At December 31, 2009 the maximum credit exposure to a non-related party was $765 thousand (2008 - $885 thousand) and to a related party was $1,258 thousand (2008 - $7,788 thousand). Excluding related parties, the Corporation had 132 customers (2008 - 129). There was a credit loss of $3 thousand in 2009 (2008 – no credit losses).

15. Financial Instruments and Risk Management (continued)

The carrying amount of financial and derivative assets represents the maximum credit exposure as follows:

	2009	2008
	(thousands)	
Cash	$ 22,360	$ 39,545
Accounts receivable	9,334	9,218
Intercompany accounts receivable	5,019	5,707
Debt retirement funds	33,182	28,526
Fair value of derivative instruments	1,137	8,154
Maximum credit exposure	$ 71,032	$ 91,150

The following reflects an aging summary of the Corporation's accounts receivable:

	2009	2008
	(thousands)	
Current	$ 9,309	$ 9,200
30 - 59 days	25	11
60 - 89 days	-	3
Greater than 90 days	-	4
	$ 9,334	$ 9,218

The Corporation does not have a provision for credit losses (2008 - $nil).

e. Future payments under operating leases are as follows:

2010	2011	2012	2013	2014	Thereafter	Total
$ 319	$ 111		$ -	$ -	$ -	$ 430

16. Revenue Collected For and Paid to Municipalities

In accordance with the provisions of *The SaskEnergy Act*, the Corporation is required to collect from specific customers, an amount based on the value of natural gas transported on their behalf. The Corporation in turn pays the revenue collected to those municipalities. The revenue collected is classified as revenue collected for municipalities, and the amount paid is classified as payments to municipalities on the statement of income. In 2009, revenue collected for and paid to municipalities was $1,723 thousand (2008 - $2,413 thousand).

17. Other Revenue

	2009	2008
	(thousands)	
Natural gas and liquid sales	$ 3,295	$ 6,639
Processing fees	524	430
Other	228	218
	$ 4,047	$ 7,287

18 Interest Expense

	2009	2008
	(thousands)	
Interest expense on notes payable to parent	$ 21,862	$ 21,415
Interest income	(78)	573
Interest on other debt	650	650
Amortization of debt premium and issue costs	412	376
Interest capitalized	(208)	(569)
Debt retirement funds earnings	(1,660)	(1,581)
Debt retirement funds fair value adjustments	485	307
	$ 21,463	$ 21,171

Interest paid during the year on notes payable to parent was $21,977 thousand (2008 - $21,128 thousand).

19. Amortization

	2009	2008
	(thousands)	
Intangible assets	$ 1,870	$ 1,790
Property, plant and equipment	27,039	26,331
Customer capital contributions	(2,034)	(1,756)
	$ 26,875	$ 26,365

The estimated service lives are based on depreciation studies with annual reviews for reasonableness.

The composite rate of amortization (excluding the effect of customer capital contributions amortization) was 3.1 per cent during 2009 (2008 - 3.2 per cent).

20. Saskatchewan Taxes

	2009	2008
	(thousands)	
Corporate capital tax	$ 2,077	$ 2,453
Property taxes and other	566	560
	$ 2,643	$ 3,013

The above amounts do not include Saskatchewan Provincial Sales Tax payments.

21. Net Change in Non-Cash Working Capital

	2009	2008
	(thousands)	
Accounts receivable	$ (116)	$ 2,602
Intercompany accounts receivable	688	(1,967)
Natural gas in storage held for resale	334	3,839
Inventories of supplies	(38)	(112)
Accounts payable	(7,708)	3,945
Intercompany accounts payable	(11,365)	9,932
	$ (18,205)	$ 18,239

22. Related Party Transactions

Routine operating transactions with related parties are settled at exchange amounts which approximate prevailing market prices under normal trade terms.

a. Included in these financial statements are transactions with SaskEnergy and its subsidiaries as follows:

	2009	2008
	(thousands)	
Transportation and storage revenue	$ 52,190	$ 44,852
Gas marketing sales	48,544	69,134
Gas marketing cost of gas sold	49,503	55,440
Operating and maintenance expense	14,408	16,326
Interest expense	20,943	21,007
Fair value of derivative instruments assets	1,137	8,154
Natural gas in storage held for resale	12,152	12,486
Purchase of property, plant and equipment	-	47
Fair value of derivative instruments liabilities	2,712	4,204

Amounts outstanding at year end have been shown as intercompany accounts receivable and intercompany accounts payable on the Statement of Financial Position.

b. Included in these financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to the Corporation by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as related parties).

22. Related Party Transactions (continued)

These transactions, during the year and amounts outstanding at year end, are as follows:

	2009	2008
	(thousands)	
Revenue	$ 14,342	$ 13,301
Operating expenses	6,889	6,151
Customer capital contributions	27,088	33,432
Accounts receivable	1,288	1,167
Accounts payable	14,455	105

In addition, the Corporation pays Saskatchewan Provincial Sales Tax to the Province of Saskatchewan on all of its taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

23. Employees' Future Benefits

a. Pension plans

Employees of the Corporation are members of either a defined contribution or a defined benefit pension plan. During the year, the Corporation contributed $1,115 thousand (2008 - $1,052 thousand) on behalf of employees for current services.

b. Retiring allowance plan

The amounts related to the unfunded defined benefit retiring allowance plan for executive, management employees and members of the Communications, Energy and Paperworkers Union (CEP), Local 649 are as follows:

	2009	2008
	(thousands)	
Accrued benefit liability	$ 3,398	$ 3,463
Benefits paid during the year	336	212
Net expense	408	(180)

23. Employees' Future Benefits (continued)

The Corporation measures its accrued benefit liability as at December 31 of each year with an annual actuarial valuation. The significant actuarial assumptions adopted in measuring the Corporation's accrued benefit liability at December 31 are:

	2009	2008
Discount rate	**5.2 per cent**	7.1 per cent
Inflation rate	**2.5 per cent**	2.5 per cent
Average remaining employee service life	**7.4 years**	7.8 years

For employees who are members of the CEP, the length of service earned for the purpose of the retiring allowance plan is equal to their service up to and including December 31, 2004 less service time converted to other employee benefits. Remaining entitlements, if any, under the retiring allowance plan will be paid out to CEP members upon their retirement in accordance with the terms of the plan.

For management employees, the length of service earned for the purpose of the retiring allowance plan is equal to their service up to and including December 31, 2005. Entitlements under the retiring allowance plan will be paid out to management employees upon their retirement in accordance with the terms of the plan.

24. Rate Regulation

Rate regulation did not cause the Corporation to account for transactions or events differently than it would have in the absence of rate regulation, except where specifically noted. The impact of rate regulation on the Corporation was as follows:

By virtue of legislation, the Corporation has the exclusive authority to transport natural gas within Saskatchewan. Accordingly, the Provincial Cabinet has the authority to set transportation rates charged to shippers. Transportation rates are not subject to review by the Saskatchewan Rate Review Panel.

Based on the foregoing rate-setting process, revenue recognition policies for transportation revenue are as described in note 2g. The Corporation's transportation revenue was $100,840 thousand for 2009 (2008 - $89,433 thousand).

25. Comparative Figures

Certain of the prior year's figures have been reclassified to conform with the current year's presentation.

BAYHURST GAS LIMITED

CONSOLIDATED
FINANCIAL STATEMENTS

December 31, 2009

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Auditors' Report

To the Shareholder of Bayhurst Gas Limited

We have audited the consolidated statement of financial position of Bayhurst Gas Limited as at December 31, 2009 and the consolidated statements of income and retained earnings, comprehensive income, accumulated other comprehensive income and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP.

Chartered Accountants

Regina, Saskatchewan
February 25, 2010

BAYHURST GAS LIMITED
Consolidated Statement of Financial Position

As at December 31
(thousands of dollars)

	Notes	2009	2008
Assets			
Current assets			
Accounts receivable	5	$ 7,499	$ 3,771
Intercompany accounts receivable		4,298	3,318
Natural gas in storage held for resale	6	196,597	77,036
Fair value of derivative instruments	13	31,949	8,671
		240,343	92,796
Natural gas in storage held for resale	6	727	1,479
Property, plant and equipment	7	23,679	12,938
Debt retirement funds	8	917	104
Other assets		-	154
		$ 265,666	$ 107,471
Liabilities and Shareholder's Equity			
Current liabilities			
Bank indebtedness		$ 102,926	$ 42,466
Accounts payable	9	5,861	2,089
Intercompany accounts payable		3,410	1,272
Dividends payable		-	8,084
Fair value of derivative instruments	13	408	350
		112,605	54,261
Asset retirement obligations	10	2,451	2,876
Notes payable to parent	11	107,308	29,906
		222,364	87,043
Shareholder's equity			
Retained earnings		42,210	19,463
Accumulated other comprehensive income (loss)		31	(96)
		42,241	19,367
Share capital	12	1,061	1,061
		43,302	20,428
		$ 265,666	$ 107,471

(See accompanying notes)

On behalf of the Board:

Director

Director

BAYHURST GAS LIMITED
Consolidated Statement of Income and Retained Earnings

Years ended December 31
(thousands of dollars)

	Notes	2009	2008
Revenue			
Gas marketing sales		$ 60,232	$ 65,626
Royalties		2,615	5,953
Other	14	1,403	2,457
		64,250	74,036
Expenses			
Gas marketing cost of gas sold		22,510	23,599
Operating and maintenance		7,597	4,208
Amortization	16	714	1,720
Interest	15	2,598	1,579
Saskatchewan taxes	17	1,624	251
		35,043	31,357
Net income		29,207	42,679
Retained earnings, beginning of year		19,463	3,413
Change in accounting policy	3	-	11
Dividends		(6,460)	(26,640)
Retained earnings, end of year		$ 42,210	$ 19,463

(See accompanying notes)

BAYHURST GAS LIMITED
Consolidated Statement of Comprehensive Income
Years ended December 31
(thousands of dollars)

	2009	2008
Net income	**$ 29,207**	$ 42,679
Other comprehensive income		
Gains on derivative instruments designated as hedges for accounting purposes in prior years transferred to net income in the current year	**127**	111
Comprehensive income	**$ 29,334**	$ 42,790

BAYHURST GAS LIMITED
Consolidated Statement of Accumulated Other Comprehensive Income
Years ended December 31
(thousands of dollars)

	2009	2008
Accumulated other comprehensive loss, beginning of year	**$ (96)**	$ (207)
Other comprehensive income	**127**	111
Accumulated other comprehensive income (loss), end of year	**$ 31**	$ (96)

(See accompanying notes)

BAYHURST GAS LIMITED
Consolidated Statement of Cash Flows

Years ended December 31
(thousands of dollars)

	Notes	2009	2008
Operating Activities			
Net income		**$ 29,207**	$ 42,679
Add (deduct) items not requiring an outlay of cash			
Amortization		**1,006**	2,037
Change in fair value of derivative instruments		**(23,093)**	(6,998)
Debt retirement funds earnings		**(13)**	(4)
		7,107	37,714
Net change in non-cash working capital related to operations	18	**(118,359)**	(23,249)
Decrease in natural gas in storage - non-current		**752**	768
Cash (used in) provided by operating activities		**(110,500)**	15,233
Investing Activities			
Additions to property, plant and equipment		**(12,018)**	(2,916)
Cash used in investing activities		**(12,018)**	(2,916)
Financing Activities			
Increase (decrease) in bank indebtedness		**60,460**	(11,138)
Dividends paid		**(14,544)**	(30,985)
Increase in notes payble to parent		**77,402**	29,906
Debt retirement funds installments		**(800)**	(100)
Cash provided by (used in) financing activities		**122,518**	(12,317)
Increase in cash during the year		**-**	-
Cash position, beginning of year		**-**	-
Cash position, end of year		**$ -**	$ -

(See accompanying notes)

Bayhurst Gas Limited
Notes to the Consolidated Financial Statements
December 31, 2009

1. Status of the Corporation

Bayhurst Gas Limited (the Corporation) was incorporated on March 30, 1988 under *The Saskatchewan Business Corporations Act*. The Corporation is a wholly owned subsidiary of SaskEnergy Incorporated (SaskEnergy), a Saskatchewan provincial Crown corporation and therefore is not subject to Federal or Provincial income taxes in Canada.

The affairs of the Corporation are managed by the Board of Directors and the management of its parent, SaskEnergy.

2. Summary of Significant Accounting Policies

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and require management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management periodically evaluates the estimates and assumptions used based on past experience and other factors considered reasonable under the circumstances. The inherent uncertainty involved in making such estimates and assumptions may impact the actual results reported in future periods. Due to market volatility, changes in future conditions in the near term could result in a material change. Significant areas requiring the use of estimates and assumptions are described in the following summary of significant accounting policies:

a. Principles of consolidation

The consolidated financial statements include the accounts of the Corporation and its wholly owned subsidiary, Bayhurst Energy Services Corporation. The accounts also include the Corporation's 50 per cent proportionate share of the Kisbey Gas Gathering and Processing Facility, an unincorporated joint venture.

b. Natural gas in storage held for resale

Natural gas in storage is stated at the lower of cost and net realizable value. Cost is determined on a weighted average cost basis. Net realizable value is determined using near month and forward natural gas market prices as appropriate.

c. Property, plant and equipment

Property, plant and equipment is stated at cost and includes all direct costs related to the development of the assets and an allowance for interest costs related to financing construction of the related assets.

The costs of renewals and betterments which extend the economic life of assets are capitalized.

Retirement or sale of a major item or class of property, plant and equipment is accounted for by relieving the asset accounts of the associated cost and accumulated amortization. The difference between the proceeds and the net book value of the assets disposed is included in income for the current period.

2. Summary of Significant Accounting Policies (continued)

Amortization expense is calculated on a straight-line basis over the estimated service life of the asset. The amortization rates are as follows: (per cent)

Transmission and storage	5.6 to 9.0
Gathering, treatment and compression	5.0 to 12.2

Customer capital contributions relate to construction of new service connections. These contributions from customers are amortized on a straight-line basis over the estimated service life of the related asset.

d. Asset retirement obligations

Where a legal obligation exists, the Corporation recognizes the fair value of its asset retirement obligations relating to the future decommissioning of certain natural gas facilities as a liability in the period in which the obligation is incurred provided a reasonable estimate of fair value can be determined. The liability is increased annually for the passage of time through accretion expense. The associated asset retirement cost is added to the carrying amount of the related asset and amortized over the estimated useful life of the related asset.

Due to the long-term nature of the assumptions made in the cost estimates, there could be a material adjustment to income in future reporting periods. Therefore, revisions will be made periodically to reflect more accurate estimates.

e. Financial instruments

The Corporation classifies its financial instruments into one of the following categories: 1) held-for-trading, 2) held-to-maturity, 3) loans and receivables, 4) available-for-sale, and 5) other liabilities.

All financial instruments are measured at fair value upon initial recognition. The fair value of a financial instrument is the amount at which the financial instrument could be exchanged in an arm's length transaction between knowledgeable and willing parties under no compulsion to act.

Financial assets and liabilities classified as held-for-trading are subsequently measured at fair value with changes in fair value recognized in net income. Financial assets classified as available-for-sale are subsequently measured at fair value with changes in fair value recognized in other comprehensive income until the financial asset is sold or other than temporarily impaired at which time the cumulative gain or loss is recognized in net income. Financial assets classified as held-to-maturity and loans and receivables as well as financial liabilities classified as other liabilities are subsequently amortized using the effective interest method. All derivatives are recognized as an asset or liability as of the financial statement date.

Transaction costs related to held-for-trading financial assets and liabilities are expensed as incurred. For all other financial instruments, transaction costs are included in the initial carrying amount.

2. Summary of Significant Accounting Policies (continued)

Accounts receivable and intercompany accounts receivable are classified as loans and receivables. Carrying value approximates fair value due to the short-term nature of these instruments. The debt retirement funds are classified as held-for-trading assets and recorded at fair value. The change in the fair value of the debt retirement funds is recognized in interest expense.

Bank indebtedness is classified as held-for-trading. Accounts payable, intercompany accounts payable and dividends payable are classified as other liabilities. Carrying value approximates fair value due to the short-term nature of these instruments. Long-term debt is classified as other liabilities and recorded at amortized cost. The related debt premium, discount and issue costs are included in the carrying value of the long-term debt and are recognized in interest expense using the effective interest rate method.

Derivative financial instruments not designated as a hedge are classified as held-for trading and are recorded at fair value in the statement of financial position in current assets or current liabilities as applicable. The change in the fair value of these derivatives is recorded in net income and classified within the revenue or expense category to which they relate. The revenue and expense categories impacted are described in note 13.

The Corporation classifies the fair value of its financial instruments and derivatives according to the following hierarchy based on the amount of observable inputs used to value the instruments.

i. Level 1 - Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis. The Corporation does not use Level 1 inputs for any of its recurring fair value measurements.

ii. Level 2 - Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reported date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value, volatility factors and broker quotations, which can be substantially observed or corroborated in the marketplace. Instruments in this category include nonexchange traded derivatives such as over-the-counter physical forwards and options, including those which have prices similar to quoted market prices.

iii. Level 3 - Valuations in this level are those with inputs which are less observable, unavailable or where the observable data does not support the majority of the instrument's fair value. The Corporation does not use Level 3 inputs for any of its recurring fair value measurements.

2. Summary of Significant Accounting Policies (continued)

f. Revenue recognition

Revenue from natural gas marketing is recorded upon completion of the delivery of natural gas to the customer. The Corporation acts as a principal in these natural gas marketing transactions, taking title to the natural gas purchased for resale, and assuming the risks and rewards of ownership. Changes in the fair value of outstanding gas marketing sales contracts are recorded as gains or losses in the period of change.

Royalty revenue is recognized when natural gas is sold from wells subject to royalty agreements and the ultimate collection is reasonably assured.

Natural gas and liquid sales, included in other revenue, is recognized when natural gas and natural gas liquids are delivered to customers and ultimate collection is reasonably assured.

g. Cost of gas sold

The cost of gas sold includes the cost of purchasing natural gas on the open market, fair value adjustments on outstanding non-financial derivative instruments, transportation, and direct operating costs related to supply acquisition.

h. Gas marketing

The Corporation may enter into contracts that require either the physical delivery (sale) or receipt (purchase) of natural gas in a future period. The gain or loss on these transactions is the difference between the sales revenue recognized in the period and the average cost of natural gas required to fulfill those sales.

Changes in the fair value of the contracts due to a change in market prices up to the date of settlement are recorded as gains or losses in gas marketing sales or gas marketing cost of gas sold in the period of change.

i. Employees' future benefits

i. Pension plans

The Corporation provides pension plans for all eligible employees, including a defined contribution pension plan and a defined benefit pension plan.

Under both multiemployer plans the Corporation's obligations are limited to making regular payments to the plans for current services. When made, these contributions are charged to expenses.

ii. Retiring allowance plan

The cost of future retirement allowance benefits earned by employees under this plan is actuarially determined using the projected benefit method and management's best estimates.

2. Summary of Significant Accounting Policies (continued)

j. Future accounting policy changes

The Canadian Institute of Chartered Accountants (CICA) has issued several new Handbook Sections: Section 1582 – Business Combinations, Section 1601 – Consolidated Financial Statements and Section 1602 – Non-Controlling Interests for fiscal years beginning on or after January 1, 2011. These sections replace existing Handbook Sections 1581 and 1600 and establish standards for the accounting for business combinations, preparation of consolidated financial statements and accounting for a non-controlling interest in a subsidiary. The Corporation is evaluating the potential impacts of these accounting recommendations and does not anticipate a significant impact on the Corporation's financial statements.

The CICA has announced that publicly accountable Canadian entities will be required to prepare financial information in accordance with International Financial Reporting Standards (IFRS) effective January 1, 2011. Although IFRS are a principle-based set of standards, similar to current GAAP, there are areas where the accounting treatment differs from Canadian GAAP. The Corporation is evaluating the potential impacts of IFRS on the Corporation's financial statements.

3. Changes in Accounting Policies

The CICA implemented revisions to Handbook Section 3862 "Financial Instruments – Disclosures" for fiscal years ending after September 30, 2009. These revisions are intended to align the disclosure requirements for financial instruments to the maximum extent possible with the disclosure required under IFRS. These revisions require additional disclosure based on a three level hierarchy that reflects the significance of inputs used in measuring fair value. The new required disclosure is provided in Note 2 and Note 13.

4. Capital Disclosure

The Corporation's objective when managing its capital is to maintain financial stability through the effective management of liquidity and capital structure. Ensuring financial stability is critical to providing safe reliable service.

The Corporation finances its capital requirements through internally generated funds and debt. The Corporation has a Credit Facility Agreement with its parent, SaskEnergy, whereby it may borrow $200 million on a revolving basis. The Corporation pays an interest rate determined by SaskEnergy which is equivalent to SaskEnergy's average rate on short-term notes borrowed from the Province of Saskatchewan. Under this agreement the Corporation may make repayments at any time without penalty and SaskEnergy may terminate the loans without notice. In addition, the Corporation may borrow long-term debt from its parent, through the Subsidiary Debt Agreement, upon approval by its Board of Directors.

The Corporation's capital consists of short-term debt, long-term debt having a term to maturity greater than one year and shareholder's equity. The Corporation's objectives, policies and processes for managing its capital are consistent with the prior year. The Corporation complied with all externally imposed requirements on its capital for the year ended December 31, 2009.

5. Accounts Receivable

	2009	2008
	(thousands)	
Unbilled revenue	$ 1,009	$ 1,654
Trade accounts	-	830
Other receivables	6,490	1,287
	$ 7,499	$ 3,771

6. Natural Gas in Storage Held for Resale

During the year, $22,164 thousand of natural gas in storage held for resale (2008 - $23,095 thousand) was recognized as cost of gas sold.

7. Property, Plant and Equipment

	2009			2008		
	(thousands)					
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Gathering, treatment and compression	$ 11,779	$ 3,542	$ 8,237	$ 11,647	$ 2,886	$ 8,761
Storage	6,749	3,309	3,440	6,549	3,296	3,253
Transmission	2,669	1,923	746	2,617	1,876	741
Construction in progress	11,295	-	11,295	224	-	224
	$ 32,492	$ 8,774	23,718	$ 21,037	$ 8,058	12,979
Less:						
Unamortized customer capital contributions			39			41
			$ 23,679			$ 12,938

7. Property, Plant and Equipment (continued)

Customer capital contributions are required to be paid by customers to the Corporation to aid in construction of certain customer-specific facilities in accordance with established business policies:

	2009	2008
	(thousands)	
Balance, beginning of year	$ 41	$ 42
Amortization of contributions	(2)	(1)
Balance, end of year	$ 39	$ 41

8. Debt Retirement Funds

The Corporation has received long-term debt from SaskEnergy. The terms and conditions of this debt require (on an annual basis) the investment of an amount equal to one per cent of the related outstanding debt. This investment is referred to as a debt retirement fund. The yield on these investments was 5.4 per cent for 2009 (2008 - 5.8 per cent). Debt retirement funds are held-for-trading assets and are recorded at fair value on the statement of financial position.

Amounts required to be invested in the debt retirement fund in each of the next five years are as follows: (thousands)

2010	2011	2012	2013	2014
$ 1,050	$ 1,050	$ 1,050	$ 800	$ 300

9. Accounts Payable

	2009	2008
	(thousands)	
Supplier payables	$ 4,818	$ 769
Other payables	1,043	1,320
	$ 5,861	$ 2,089

10. Asset Retirement Obligations

The Corporation has estimated the future costs of decommissioning certain natural gas facilities. The timing of future decommissioning and settlement dates of each obligation is conditional upon the Corporation's intended use for these facilities. For purposes of estimating the fair value of these obligations at December 31, a settlement period ranging from 2012 to 2022 has been assumed.

As at December 31, the estimated future cash flows required to settle these obligations were $4,131 thousand (2008 - $3,565 thousand), which were discounted to $2,451 thousand (2008 - $2,876 thousand) applying credit adjusted risk free rates ranging from 4.3 to 4.8 per cent.

	2009	2008
	(thousands)	
Asset retirement obligations, beginning of year	$ 2,876	$ 2,744
Accretion expense	138	132
Revisions in estimated cash flows	(563)	-
Asset retirement obligations, end of year	$ 2,451	$ 2,876

11. Notes Payable to Parent

	2009		2008	
Years to Maturity	Principal Outstanding (thousands)	Average Fixed Interest Rate (per cent)	Principal Outstanding (thousands)	Average Fixed Interest Rate (per cent)
Notes payable to parent				
6 - 10	$ 105,000	3.8	$ 30,000	4.5
Unamortized discount/issue costs	2,308		(94)	
	$ 107,308		$ 29,906	

The effective interest rate on notes payable to parent was 3.8 per cent (2008 - 4.5 per cent).

a. Maturity dates

Maturity dates are equivalent to interest rate repricing dates.

b. Principal repayments

Principal repayments due in each of the next five years are as follows: (thousands)

2010	2011	2012	2013	2014
$ -	$ -	$ 25,000	$ 50,000	$ -

12. Share Capital

Authorized share capital consists of an unlimited number of Class A common shares without nominal or par value. One hundred twenty (120) shares (2008 - 120 shares) are issued and outstanding.

13. Financial Instruments and Risk Management

a. Fair value of financial instruments

The fair value of the Corporation's financial instruments is listed below:

	2009		2008	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(thousands)			
Other liabilities				
Notes payable to parent	**$ 107,308**	**$ 108,496**	$ 29,906	$ 31,219
Held-for-trading				
Debt retirement funds	**917**	**917**	104	104

The fair value of the above instruments was based on the following:

i. Notes payable to parent – The present value of future cash flows is discounted at the market rate of interest for the equivalent Province of Saskatchewan debt instruments.

ii. Debt retirement funds – The fair value measurements are calculated using Level 2 inputs. The market value of the investments held in the debt retirement fund is determined by Saskatchewan's Ministry of Finance using information provided by investment dealers. To the extent possible, valuations reflect indicative secondary pricing for these securities. In all other circumstances, valuations are determined with reference to similar actively traded instruments.

The fair value of other financial instruments, including accounts receivable, intercompany accounts receivable, bank indebtedness, accounts payable, intercompany accounts payable and dividends payable approximate their carrying values due to the short-term nature of the instruments.

13. Financial Instruments and Risk Management (continued)

b. Natural gas derivative instruments

The fair value of natural gas derivative instruments held-for-trading is calculated daily and is based on quoted market prices. The Corporation obtains information from sources such as the New York Mercantile Exchange and the Natural Gas Exchange, independent price publications and over-the-counter broker quotes. All of the Corporation's recurring fair value measurements are calculated using Level 2 inputs. For physical natural gas contracts notional values are an approximation of future net cash flows based on contract price multiplied by contract quantity. For other derivative instruments, the notional value is the difference between the contract price and the market price. Where contract prices are referenced to an index price that has not yet been fixed, the market price at December 31, 2009 has been used to estimate the contract price. At December 31, 2009, all derivative assets and liabilities held-for-trading are recorded on the statement of financial position at fair value.

As at December 31, 2009, natural gas derivative instruments held-for-trading had the following fair values, notional values and maturities:

	2010	2011	2012	2013	2014	Total
			(thousands)			
Physical natural gas contracts						
Fair value	$ 12,112	$ 7,397	$ 5,102	$ 2,609	$ -	$ 27,220
Notional value	68,775	50,890	44,503	34,565	-	198,733
Natural gas price swaps						
Fair value	2,187	1,586	548	-	-	4,321
Notional value	2,194	1,618	574	-	-	4,386
Total						
Fair value	$ 14,299	$ 8,983	$ 5,650	$ 2,609	$ -	$ 31,541
Notional value	$ 70,969	$52,508	$45,077	$34,565	$ -	$203,119

Fair value - increase
Notional value - estimated net cash inflow

13. Financial Instruments and Risk Management (continued)

c. Changes in fair value

The fair value of derivative instruments is presented on the consolidated statement of financial position as follows:

	2009	2008
	(thousands)	
Fair value of derivative instrument assets	$ 31,949	$ 8,671
Fair value of derivative instrument liabilities	(408)	(350)
	$ 31,541	$ 8,321

The change in fair value of financial and derivative instruments is recorded in net income within the relevant revenue or expense category. For the year ended December 31 the increase in net income of these unrealized gains was as follows:

	2009	2008
	(thousands)	
Derivative instruments		
Gas marketing sales	$ 23,093	$ 6,997
Financial instruments		
Interest revenue	(1)	(2)
Increase in net income	$ 23,092	$ 6,995

d. Risk management

The Corporation uses various derivative financial instruments to manage the risks associated with its operating exposures to fluctuations in the price of natural gas. The objectives, policies and processes for managing risk were consistent with the prior year.

i. Natural gas price risk

The Corporation may manage the risk associated with the purchase and sale price of natural gas. The purchase or sale price of natural gas may be fixed within the contract, or referenced to a floating index price. When the price is referenced to a floating index price, natural gas derivative instruments may be used to fix the settlement amount.

13. Financial Instruments and Risk Management (continued)

Based on the Corporation's December 31, 2009 closing positions, an increase of $1.00 per Gigajoule in natural gas prices would have decreased net income, through a decrease in the fair value of natural gas derivative instruments, by $30,062 thousand. Conversely, a decrease of $1.00 per Gigajoule would have increased net income, through an increase in the fair value of natural gas contracts, by $30,062 thousand.

ii. Liquidity risk

Liquidity risk is the risk that the Corporation is unable to meet its financial obligations as they become due. For the following financial obligations, the Corporation has credit facilities available to refinance maturities in excess of anticipated operating cash flows. The following summarizes the contractual maturities of the Corporation's financial obligations as at December 31, 2009:

	6 months or less	7-12 months	1-2 years	3-5 years	More than 5 years
			(thousands)		
Bank indebtedness	$102,926	$ -	$ -	$ -	$ -
Accounts payable	5,861	-	-	-	-
Intercompany accounts payable	3,410	-	-	-	-
Notes payable to parent	1,982	1,982	3,965	82,963	33,159
Debt retirement funds installments	-	1,050	1,050	2,150	700
	$114,179	$ 3,032	$ 5,015	$85,113	$ 33,859

The notes payable to parent obligations include principal and interest payments.

iii. Credit risk

The Corporation is exposed to credit risk through accounts receivable, debt retirement funds and derivative instrument assets.

The Corporation extends credit to its customers in the normal course of business and is at risk of loss in the event of non-performance by counterparties on certain of the financial instruments described above. To reduce its credit risk, the Corporation has established policies and procedures to monitor and limit the amount of credit extended to its customers and counterparties and may require letters of credit and other forms of security. At December 31, 2009 the maximum credit exposure to a non-related counterparty was $3,092 thousand (2008 - $1,720 thousand) and to a related party was $30,004 thousand (2008 - $8,495 thousand).

13. Financial Instruments and Risk Management (continued)

Derivative credit risk arises from the possibility that a counterparty to a contract fails to perform according to the terms and conditions of that contract. Derivative credit risk is minimized by dealing with creditworthy counterparties in accordance with established credit approval policies.

The carrying amount of financial and derivative assets represents the maximum credit exposure as follows:

	2009	2008
	(thousands)	
Accounts receivable	$ 7,499	$ 3,771
Intercompany accounts receivable	4,298	3,318
Fair value of derivative instruments	31,949	8,671
Debt retirement funds	917	104
Maximum credit exposure	$ 44,663	$ 15,864

The following reflects an aging summary of the Corporation's accounts receivable:

	2009	2008
	(thousands)	
Current	$ 7,497	$ 2,764
30 - 59 days	-	41
Greater than 90 days	2	966
	$ 7,499	$ 3,771

The Corporation does not have a provision for credit losses (2008 - $nil).

14. Other Revenue

	2009	2008
	(thousands)	
Natural gas and liquid sales	$ 1,225	$ 2,063
Management fees	26	263
Processing fees	84	62
Transportation	68	69
	$ 1,403	$ 2,457

15. Interest Expense

	2009	2008
	(thousands)	
Interest on bank indebtedness	$ 235	$ 1,202
Interest on notes payable to parent	2,450	381
Amortization of debt premium/discount and issue costs	(52)	-
Interest capitalized	(22)	-
Debt retirement funds earnings	(14)	(2)
Debt retirement funds fair value adjustment	1	(2)
	$ 2,598	$ 1,579

Interest paid during 2009 on notes payable to parent was $2,060 thousand (2008 - $116).

16. Amortization

	2009	2008
	(thousands)	
Property, plant and equipment	$ 716	$ 1,721
Customer capital contributions	(2)	(1)
	$ 714	$ 1,720

The estimated service lives are based on depreciation studies with annual reviews for reasonableness.

The composite rate of amortization (excluding the effect of customer capital contributions amortization) was 5.1 per cent during 2009 (2008 – 8.8 per cent).

17. Saskatchewan Taxes

	2009	2008
	(thousands)	
Corporate capital tax	$ 1,624	$ 251

The above amounts do not include Saskatchewan Provincial Sales Tax payments.

18. Net Change in Non-Cash Working Capital

	2009	2008
	(thousands)	
Accounts receivable	$ (3,728)	$ (1,008)
Intercompany accounts receivable	(980)	(92)
Natural gas in storage held for resale	(119,561)	(21,272)
Accounts payable	3,772	(1,570)
Intercompany accounts payable	2,138	693
	$ (118,359)	$ (23,249)

19. Related Party Transactions

Routine operating transactions with related parties are settled at exchange amounts which approximate prevailing market prices under normal trade terms.

a. Included in these financial statements are transactions with SaskEnergy and its subsidiaries as follows.

	2009	2008
	(thousands)	
Revenue	$ 51,564	$ 64,488
Cost of gas sold	19,812	20,369
Operating expenses	4,900	2,358
Interest expense	2,607	1,576
Natural gas in storage held for resale	161,347	37,259
Fair value of derivative instruments assets	27,627	4,981
Fair value of derivative instruments liabilities	408	26

Amounts outstanding at year end have been shown as intercompany accounts receivable and payable on the statement of financial position.

19. Related Party Transactions (continued)

b. Included in these financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to the Corporation by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as related parties).

These transactions during the year, and amounts outstanding at year end, are as follows:

	2009	2008
	(thousands)	
Operating expenses	$ 422	$ 1,484
Saskatchewan taxes	$ 1,624	251
Accounts receivable	-	46
Accounts payable	1,133	159
Natural gas in storage held for resale	10	-

In addition, the Corporation pays Saskatchewan Provincial Sales Tax to the Province of Saskatchewan on all of its taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

20. Employee Future Benefits

a. Pension plans

Employees of the Corporation are members of either a defined contribution or a defined benefit pension plan. During the year, the Corporation contributed $39 thousand (2008 - $40 thousand) on behalf of employees for current services.

b. Retiring allowance plan

Certain employees of the Corporation are eligible to participate in the SaskEnergy Retiring Allowance Plan. The allocated amount of expense related to the unfunded defined benefit retiring allowance plan for management employees and members of the Communications, Energy and Paperworkers Union (CEP) was $78 thousand (2008 - nil).

21. Joint Venture

The following amounts have been included in these consolidated financial statements to account for the Corporation's 50 per cent proportionate share of the Kisbey Gas Gathering and Processing Facility, an unincorporated joint venture:

a. Consolidated statement of financial position

	2009	2008
	(thousands)	
Current assets	$ 62	$ 113
Property, plant and equipment	16,245	5,676
Current liabilities	(3,468)	(317)
Net investment in joint venture	$ 12,839	$ 5,472

b. Consolidated statement of income

	2009	2008
	(thousands)	
Revenue	$ 1,309	$ 2,124
Expenses	(1,329)	(1,538)
(Loss) income from joint venture	$ (20)	$ 586

c. Consolidated statement of cash flows

	2009	2008
	(thousands)	
Cash provided by operating activities	$ 3,472	$ 1,278
Cash used in investing activities	(10,859)	(252)
(Decrease) increase in cash	$ (7,387)	$ 1,026

SASKENERGY NOVA SCOTIA HOLDINGS LTD.

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009

Deloitte

Deloitte & Touche LLP
900 - 2103 11th Ave
Bank of Montreal Building
Regina SK S4P 3Z8
Canada

Tel: 306 565-5200
Fax: 306 757-4753
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Auditors' Report

To the Shareholder of SaskEnergy Nova Scotia Holdings Ltd.

We have audited the consolidated statement of financial position of SaskEnergy Nova Scotia Holdings Ltd. as at December 31, 2009 and the consolidated statements of income and comprehensive income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP.

Chartered Accountants

Regina, Saskatchewan
February 25, 2010

SASKENERGY NOVA SCOTIA HOLDINGS LTD.
Consolidated Statement of Financial Position

As at December 31
(thousands of dollars)

	Notes	2009	2008
Assets			
Current assets			
Cash		$ -	$ 18
Accounts receivable		-	2,987
Inventories of supplies		-	89
Prepaid expenses		-	89
		-	3,183
Property, plant and equipment	5	-	45,420
Revenue deficiency account	6	-	13,467
Deferred charges	7	-	269
		$ -	$ 62,339
Liabilities and Shareholder's Equity			
Current liabilities			
Accounts payable		$ -	$ 3,943
Intercompany accounts payable		-	198
Gas cost variance account		-	64
		-	4,205
Long-term debt	8	-	32,641
		-	36,846
Shareholder's equity			
Share capital	9	-	18,627
Retained earnings		-	6,866
		-	25,493
		$ -	$ 62,339

On behalf of the Board:

Director

Director

SASKENERGY NOVA SCOTIA HOLDINGS LTD.
Consolidated Statement of Income and Comprehensive Income and Retained Earnings

Year ended December 31
(thousands of dollars)

	Notes	2009	2008
Revenue			
Commodity sales		$ 5,434	$ 8,238
Revenue deficiency accrual	6	3,721	4,866
Delivery		3,034	2,432
Interest		413	-
Allowance for funds used during construction	5	31	113
Other		43	28
		12,676	15,677
Expenses			
Cost of gas sold		5,434	8,238
Interest	10	1,764	1,489
Operating and maintenance		1,103	1,442
Amortization of property, plant and equipment		935	968
Corporation capital tax		99	127
Amortization of deferred charges	7	66	55
		9,401	12,319
Net income from operations		3,275	3,358
Gain on disposal of investment	3	8,359	-
Net income and comprehensive income		11,634	3,358
Dividends	13	(18,500)	(2,157)
Retained earnings, beginning of year		6,866	5,665
Retained earnings, end of year		$ -	$ 6,866

(See accompanying notes)

SASKENERGY NOVA SCOTIA HOLDINGS LTD.
Consolidated Statement of Cash Flows

Years ended December 31
(thousands of dollars)

	Notes	2009	2008
Operating Activities			
Net income		$ 11,634	$ 3,358
Add (deduct) items not requiring an outlay of cash			
Allowance for funds used during construction		(31)	(113)
Amortization of property, plant and equipment		935	968
Amortization of deferred charges		66	55
Revenue deficiency accrual		(3,721)	(4,866)
Gain on disposal of investment	3	(8,359)	-
Other non-cash items - including change in fair value of non-interest bearing loan		83	110
		607	(488)
Net change in non-cash working capital	11	(57)	(2,982)
Cash (used in) provided by operating activities		550	(3,470)
Investing Activities			
Proceeds on sale of investment	3	73,267	-
Additions to property, plant and equipment		(4,010)	(9,028)
Increase in deferred charges	7	(57)	(184)
Cash (used in) provided by investing activities		69,200	(9,212)
Financing Activities			
Proceeds from long-term debt		4,549	8,342
Repayments of long-term debt		(37,190)	-
Proceeds from share capital issue		1,187	4,757
Redemption of share capital		(19,814)	
Dividends paid		(18,500)	(2,157)
Cash (used in) provided by financing activities		(69,768)	10,942
Decrease in cash during the year		(18)	(1,740)
Cash position, beginning of year		18	1,758
Cash position, end of year		$ -	$ 18

(See accompanying notes)

1. Status of the Corporation

SaskEnergy Nova Scotia Holdings Ltd. (the Corporation) was created on September 13, 2002 under *The Canada Business Corporations Act*. The Corporation is a wholly owned subsidiary of SaskEnergy Incorporated (SaskEnergy), a Saskatchewan provincial Crown corporation, and therefore is not subject to Federal or Provincial income taxes in Canada.

The affairs of the Corporation are managed by its Board of Directors and the management of its parent, SaskEnergy. As outlined in Note 3, the Corporation sold its interest in Heritage Gas Limited (Heritage Gas) effective October 1, 2009 and wound up all operations by December 31, 2009.

2. Summary of Significant Accounting Policies

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP). The following accounting policies of the Corporation and its investment in Heritage Gas are considered to be significant:

a. Principles of consolidation

The consolidated financial statements include the accounts of the Corporation and its 50.1 per cent proportionate share of the accounts of Heritage Gas, accounted for as a joint venture to September 30, 2009.

b. Inventories of supplies

Inventories of supplies consist primarily of pipe and general stock for construction and maintenance and are recorded at the lower of average cost or replacement cost.

c. Property, plant and equipment

Property, plant and equipment is recorded at cost and includes all direct costs plus capitalized expenses and an allowance for funds under construction (AFUDC).

Certain additions to property, plant and equipment are made with the assistance of contributions in aid of construction. Contributions in aid of construction are offset against the corresponding asset balances and amortized at the same rate as the corresponding asset.

d. Revenue recognition

Revenue includes revenue from the distribution of natural gas and recovery of the cost of natural gas paid to suppliers, and the related natural gas supply costs. Revenue is recognized when natural gas is delivered or services are performed. Distribution revenue is recorded on the basis of regular meter readings and estimates of customer usage from the date of the last meter reading to the end of the reporting period. Operations are subject to regulation and, accordingly, revenue is recognized in a manner that is consistent with the underlying rate-setting mechanism as mandated by the Nova Scotia Utility and Review Board (NSUARB). Delivery rates are designed to recover the total cost of delivery and an approved rate of return on equity.

3. Gain on Sale of Investment

On November 2, 2009 the Corporation entered into an agreement effective October 1, 2009 to sell its 50.1 per cent share of Heritage Gas in the Province of Nova Scotia to AltaGas Utility Holdings (Nova Scotia) Inc. of Calgary, Alberta. The transaction which closed on November 18, 2009, had a cash purchase price of $73,267 thousand, generating a net gain on sale of $8,359 thousand.

Calculation of the net gain on sale is as follows (thousands):

Total sale agreement proceeds		**$ 73,267**
Less Investment in Heritage Gas		
Loans receivable from Heritage Gas	35,181	
Heritage Gas - Shares	19,814	
Heritage Gas - Proportionate earnings (Inception to October 1, 2009)	9,308	**64,303**
Gain on sale of investment in Heritage Gas		**8,964**
Less sale transaction costs		605
Net gain on sale of investment		**$ 8,359**

4. Revolving Demand Facility

The Corporation, through its interest in Heritage Gas, had a $501 thousand (2008 - $501 thousand) revolving demand facility with a Canadian chartered bank, which was secured by a General Security Agreement over all personal property of Heritage Gas. The Corporation's interest in the revolving demand facility was eliminated with the sale of Heritage Gas.

5. Property, Plant and Equipment

	2009			2008		
	(thousands)					
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Franchise acquisition costs	$ -	$ -	$ -	$ 1,668	$ 334	$ 1,334
Mains and services	-	-	-	43,701	1,471	42,230
Regulating and metering stations	-	-	-	370	213	157
Meters	-	-	-	1,182	41	1,141
Computer systems	-	-	-	333	190	143
Vehicles and equipment	-	-	-	363	96	267
Tools, furniture and leaseholds	-	-	-	239	91	148
	$ -	$ -	$ -	$ 47,856	$ 2,436	$ 45,420

Franchise acquisition costs represent payments made for expenditures incurred to acquire the franchise.

Up to September 30 2009, the Corporation recorded $31 thousand (2008 - $113 thousand) in AFUDC. The cumulative AFUDC recorded as at September 30, 2009 was $1,731 thousand (2008 - $1,700 thousand).

Included in mains and services is work in progress in the amount of $0 for the year ended December 31, 2009 (2008 - $2,653 thousand). Work in progress is not depreciated until the year after the plant is brought into active service, as approved by the NSUARB.

The capitalization of operating and maintenance expenses effectively decreased expenses and increased property, plant and equipment in 2009 by $1,245 thousand (2008 - $1,393 thousand). The cumulative operating expenses capitalized as at December 31, 2009 were $9,780 thousand (2008 - $8,535 thousand).

6. Revenue Deficiency Account

	2009	2008
	(thousands)	
Revenue deficiency account, beginning of year	$ 13,467	$ 8,601
Accrued during year	3,721	4,866
Received on sale of Heritage Gas	(17,188)	-
Revenue deficiency account, end of year	$ -	$ 13,467

7. Deferred Charges

Deferred charges include third party costs related to regulatory proceedings. These costs are being amortized on a straight-line basis over a five-year period as approved by the NSUARB.

	2009	2008
	(thousands)	
Deferred charges, beginning of year	$ 269	$ 140
Costs incurred during year	57	184
Amortization	(66)	(55)
Received on sale of Heritage Gas	(260)	-
Deferred charges, end of year	$ -	$ 269

8. Long-Term Debt

	2009		2008	
	Principal Outstanding (thousands)	Fixed Interest Rate (per cent)	Principal Outstanding (thousands)	Fixed Interest Rate (per cent)
Note payable to parent	$ -	5.3	$ 30,632	5.3
Province of Nova Scotia	-	-	2,009	-
	$ -		$ 32,641	

a. Note payable to parent

The Corporation has received $4,549 thousand in loans from SaskEnergy to fulfill ownership obligations to finance its proportionate share of Heritage Gas funding requirements to September 30, 2009 (2008 - $8,342 thousand). The effective interest rate for notes payable to parent was 5.3 per cent (2008 - 5.3 per cent). By year-end, the Corporation repaid all long-term debt obligations.

8. Long-Term Debt (continued)

b. Province of Nova Scotia

During 2006, $3,808 thousand was received from the Province of Nova Scotia. The Province of Nova Scotia loan is non-interest bearing. The Province of Nova Scotia loan was guaranteed by the Corporation based on its proportionate ownership interest in Heritage Gas. This Debt was assumed by the acquirer of Heritage Gas and the guarantee by the corporation eliminated.

9. Share Capital

Authorized share capital consists of an unlimited number of class A common voting shares without nominal or par value.

	2009		2008	
	Shares	Amount (thousands)	Shares	Amount (thousands)
Share capital, beginning of year	**18,626,757**	**$ 18,627**	13,869,613	$ 13,870
Issued during the year	**1,187,392**	**1,187**	4,757,144	4,757
Redeemed during the year	**(19,814,149)**	**(19,814)**	-	-
Share capital, end of year	**-**	**$ -**	18,626,757	$ 18,627

10. Interest Expense

	2009	2008
	(thousands)	
Interest on long-term debt	**$ 1,768**	$ 1,522
Interest on short-term investment	**(20)**	(33)
Operating interest	**3**	-
Guarantee fees	**13**	-
	$ 1,764	$ 1,489

Interest paid on long-term debt prior to the sale of Heritage Gas was $1,813 thousand (2008 - $1,380 thousand).

11. Net Change in Non-Cash Working Capital

The net change in non-cash working capital related to operations was as follows:

	2009	2008
	(thousands)	
Accounts receivable	$ 2,183	$ (642)
Intercompany accounts receivable	-	6
Inventories of supplies	3	45
Prepaid expenses	(32)	(13)
Gas cost variance account	(244)	118
Accounts payable	(3,182)	(2,536)
Intercompany accounts payable	1,215	40
	$ (57)	$ (2,982)

12. Related Party Transactions

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms.

Included in these financial statements are transactions with SaskEnergy, and amounts outstanding at year end, as follows:

	2009	2008
	(thousands)	
Interest income from parent	$ 20	$ 36
Operating and maintenance	39	86
Interest expense on note payable to parent	1,687	1,418
Accounts payable	-	7
Interest payable on note payable to parent	-	127

13. Windup

By December 31, 2009 the operations of the Corporation were discontinued and a final dividend in the amount of $18,500 thousand was declared and paid to SaskEnergy Incorporated.

14. Joint Venture Interest

The following amounts have been included in these consolidated financial statements with respect to the Corporation's 50.1 per cent proportionate share of Heritage Gas.

a. Consolidated statement of financial position

	2009	2008
	(thousands)	
Current assets	$ -	$ 3,661
Property, plant and equipment	-	45,420
Revenue deficiency account	-	13,467
Deferred charges	-	269
Current liabilities	-	(3,974)
Net investment	$ -	$ 58,843

b. Consolidated statement of income

	2009	2008
	(thousands)	
Revenue	$ 12,254	$ 15,677
Expenses	(7,717)	(10,777)
Net income	$ 4,537	$ 4,900

c. Consolidated statement of cash flows

	2009	2008
	(thousands)	
Cash used in operating activities	$ -	$ (1,996)
Cash used in investing activities	(4,067)	(9,212)
Decrease in cash	$ (4,067)	$ (11,208)

SASKENERGY INTERNATIONAL INCORPORATED

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009

Deloitte

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Auditors' Report

To the Shareholder of SaskEnergy International Incorporated

We have audited the consolidated statement of financial position of SaskEnergy International Incorporated as at December 31, 2009 and the consolidated statements of income and retained earnings, comprehensive income, accumulated other comprehensive loss and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP.

Chartered Accountants

Regina, Saskatchewan
February 25, 2010

SASKENERGY INTERNATIONAL INCORPORATED
Consolidated Statement of Financial Position

As at December 31
(thousands of dollars)

	Notes	2009	2008
Assets			
Current assets			
Accounts receivable		**$ 6**	$ 4
Long-term investments	4	**29,778**	27,490
		$ 29,784	$ 27,494
Liabilities and Shareholder's Equity			
Current liabilities			
Bank indebtedness		**$ 2,893**	$ 2,410
Accounts payable		**160**	137
Intercompany accounts payable		**23**	171
		3,076	2,718
Shareholder's equity			
Retained earnings (deficit)		**847**	(1,324)
Accumulated other comprehensive loss	5	**(3,523)**	(3,284)
		(2,676)	(4,608)
Share capital	6	**29,384**	29,384
		26,708	24,776
		$ 29,784	$ 27,494
Commitments	7		

(See accompanying notes)

On behalf of the Board:

Director

Director

SASKENERGY INTERNATIONAL INCORPORATED
Consolidated Statement of Income and Retained Earnings

Years ended December 31
(thousands of dollars)

	Notes	2009	2008
Revenue			
Share of equity investments' net income	4	**$ 2,527**	$ 1,514
Expenses			
Operating		**343**	433
Interest	9	**13**	58
		356	491
Net income		**2,171**	1,023
Deficit, beginning of year		**(1,324)**	(2,347)
Retained earnings (deficit), end of year		**$ 847**	$ (1,324)

(See accompanying notes)

SASKENERGY INTERNATIONAL INCORPORATED
Consolidated Statement of Comprehensive Income

Years ended December 31
(thousands of dollars)

	2009	2008
Net income	**$ 2,171**	$ 1,023
Other comprehensive income (loss)		
Unrealized gain (losses) on translating financial statements of self-sustaining foreign operations	**(239)**	1,795
Comprehensive income	**$ 1,932**	$ 2,818

SASKENERGY INTERNATIONAL INCORPORATED
Consolidated Statement of Accumulated Other Comprehensive Loss

Years ended December 31
(thousands of dollars)

	2009	2008
Accumulated other comprehensive loss, beginning of year	**$ (3,284)**	$ (5,079)
Other comprehensive income (loss)	**(239)**	1,795
Accumulated other comprehensive loss, end of year	**$ (3,523)**	$ (3,284)

(See accompanying notes)

SASKENERGY INTERNATIONAL INCORPORATED
Consolidated Statement of Cash Flows

Years ended December 31
(thousands of dollars)

	Notes	2009	2008
Operating Activities			
Net income		**$ 2,171**	$ 1,023
Deduct items not requiring an outlay of cash			
Share of equity investments' net income		**(2,527)**	(1,514)
		(356)	(491)
Net change in non-cash working capital related to operations	10	**(127)**	142
Cash used in operating activities		**(483)**	(349)
Financing Activities			
Increase in bank indebtedness		**483**	349
Cash provided by financing activities		**483**	349
Decrease in cash during the year		**-**	-
Cash position, beginning of year		**-**	-
Cash position, end of year		**$ -**	$ -

(See accompanying notes)

1. Status of the Corporation

SaskEnergy International Incorporated (the Corporation) was incorporated under *The Canada Business Corporations Act* on February 17, 1981 and commenced international operations on March 1, 1996. SaskEnergy International Incorporated is a wholly owned subsidiary of SaskEnergy Incorporated (SaskEnergy), a Saskatchewan provincial Crown corporation and therefore is not subject to Federal or Provincial income taxes in Canada.

The Corporation is dependent upon the financial support of SaskEnergy.

2. Summary of Significant Accounting Policies

The consolidated financial statements include the accounts of the Corporation and its wholly owned subsidiaries, SaskEnergy Mexican Holdings Ltd, SaskEnergy Chilean Holdings I Ltd. and SaskEnergy Chilean Holdings II Ltd.

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and require management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management periodically evaluates the estimates and assumptions used based on past experience and other factors considered reasonable under the circumstances. The inherent uncertainty involved in making such estimates and assumptions may impact the actual results reported in future periods. Due to market volatility, changes in future conditions in the near term could result in a material change. Significant areas requiring the use of estimates and assumptions are described in the following summary of significant accounting policies:

a. Long-term investments

The Corporation accounts for its investments in Gas Sur S.A. and IGASAMEX USA Ltd. using the equity method.

b. Financial instruments

The Corporation classifies its financial instruments into one of the following categories: 1) held-for-trading, 2) held-to-maturity, 3) loans and receivables, 4) available-for-sale, and 5) other liabilities.

All financial instruments are measured at fair value upon initial recognition. The fair value of a financial instrument is the amount at which the financial instrument could be exchanged in an arm's length transaction between knowledgeable and willing parties under no compulsion to act.

2. Summary of Significant Accounting Policies (continued)

Financial assets and liabilities classified as held-for-trading are subsequently measured at fair value with changes in fair value recognized in net income. Financial assets classified as available-for-sale are subsequently measured at fair value with changes in fair value recognized in other comprehensive income until the financial asset is sold or other than temporarily impaired at which time the cumulative gain or loss is recognized in net income. Financial assets classified as held-to-maturity and loans and receivables as well as financial liabilities classified as other liabilities are subsequently amortized using the effective interest method. All derivatives are recognized as an asset or liability on the trade date.

Transaction costs related to held-for-trading financial assets and liabilities are expensed as incurred. For all other financial instruments, transaction costs are included in the initial carrying amount.

Accounts receivable are classified as loans and receivables. Carrying value approximates fair value due to the short-term nature of these instruments.

Bank indebtedness is classified as held-for-trading. Accounts payable and intercompany accounts payable are classified as other liabilities. Carrying value approximates fair value due to the short-term nature of these instruments.

The Corporation's foreign investments are self-sustaining, and the financial statements are translated from the functional currency into Canadian dollars using the current rate method. Translation adjustments resulting from changes in the exchange rate between the functional currency and the Canadian dollar are reflected in accumulated other comprehensive loss in the Shareholder's Equity.

c. Employees' future benefits

i. Pension plans

The Corporation participates in a defined contribution pension plan for all eligible employees. The defined contribution pension plan is governed by *The Public Employees Pension Plan Act and Regulations.*

Under the multiemployer plan the Corporation's obligations are limited to making regular payments to the plan for current services. When made, these contributions are charged to expenses.

ii. Retiring allowance plan

The cost of future retirement allowance benefits earned by employees under this plan is actuarially determined using the projected benefit method and management's best estimates.

2. Summary of Significant Accounting Policies (continued)

d. Future accounting policy changes

The Canadian Institute of Chartered Accountants (CICA) has issued several new Handbook Sections: Section 1582 – Business Combinations, Section 1601 – Consolidated Financial Statements and Section 1602 – Non-Controlling Interests for fiscal years beginning on or after January 1, 2011. These sections replace existing Handbook Sections 1581 and 1600 and establish standards for the accounting for business combinations, preparation of consolidated financial statements and accounting for a non-controlling interest in a subsidiary. The Corporation is evaluating the potential impacts of these accounting recommendations and does not anticipate a significant impact on the Corporation's financial statements.

The CICA has announced that publicly accountable Canadian entities will be required to prepare financial information in accordance with International Financial Reporting Standards (IFRS) effective January 1, 2011. Although IFRS are a principle-based set of standards, similar to current GAAP, there are areas where the accounting treatment differs from Canadian GAAP. The Corporation is evaluating the potential impacts of IFRS on the Corporation's financial statements.

3. Capital Disclosure

The Corporation's objective when managing its capital is to maintain financial stability through the effective management of liquidity and capital structure.

The Corporation is an investment holding company with equity investments in Chile and Mexico. Recognizing the risk inherent in these investments, its parent, SaskEnergy, has funded the Corporation entirely through share capital.

The Corporation has a Credit Facility Agreement with its parent, SaskEnergy, whereby it may borrow $100,000 thousand on a revolving basis. The Corporation pays an interest rate determined by SaskEnergy which is equivalent to SaskEnergy's average rate on short-term notes borrowed from the Province of Saskatchewan. Under this agreement the Corporation may make repayments at any time without penalty and SaskEnergy may terminate the loans without notice.

The Corporation's capital consists of shareholder's equity as the Corporation currently has no need for additional capital. The Corporation's objectives, policies and processes for managing its capital are consistent with the prior year. The Corporation complied with all externally imposed requirements on its capital for the year ended December 31, 2009.

4. Long-Term Investments

Long-term investments are as follows:

	2009		2008	
	Amount (thousands)	Per cent Ownership	Amount (thousands)	Per cent Ownership
Equity investment				
Gas Sur S.A.				
Initial investment	**$ 13,784**	**30.0**	$ 13,784	30.0
Accumulated equity earnings	**3,767**		3,338	
Foreign currency translation adjustment	**(854)**		(2,461)	
	16,697		14,661	
IGASAMEX USA Ltd.				
Initial investment	**10,880**	**40.1**	10,880	40.1
Accumulated equity earnings	**4,870**		2,772	
Foreign currency translation adjustment	**(2,669)**		(823)	
	13,081		12,829	
	$ 29,778		$ 27,490	

a. Gas Sur S.A.

The Corporation's 30.0 per cent share of Gas Sur S.A.'s 2009 net income was $429 thousand (2008 - $565 thousand). The Corporation's foreign currency translation adjustment for 2009 resulted in a $1,607 thousand increase in the balance of the investment in Gas Sur S.A. (2008 - $497 thousand reduction).

The initial cost of the investment exceeded the Corporation's underlying share of the net book value of Gas Sur S.A. by approximately $5,100 thousand (2008 - $5,100 thousand).

b. IGASAMEX USA Ltd.

The Corporation's 40.1 per cent share of IGASAMEX USA Ltd.'s 2009 net income was $2,098 thousand (2008 - $949 thousand). The Corporation's foreign currency translation adjustment for 2009 resulted in a $1,846 thousand decrease in the balance of the investment in IGASAMEX USA Ltd. (2008 - $2,292 thousand increase).

The initial cost of the investment exceeded the Corporation's underlying share of the net book value of IGASAMEX USA Ltd. by approximately $4,800 thousand (2008 - $4,800 thousand).

5. Accumulated Other Comprehensive Loss

The balance in accumulated other comprehensive loss consists of the following:

	2009	2008
	(thousands)	
Unrealized losses on translating financial statements of self-sustaining foreign operations	**$ (3,523)**	$ (3,284)

6. Share Capital

Authorized share capital consists of an unlimited number of Class A common shares without nominal or par value. There were 2,938,432 shares (2008 - 2,938,432) issued and outstanding.

7. Commitments

The Corporation, through its subsidiary SaskEnergy Mexican Holdings Ltd., has posted a $4,008 thousand (United States dollar denominated) letter of credit in favour of Scotiabank Inverlat S.A., a Mexican bank. The letter of credit was used as collateral for the Corporation's share of a line of credit issued to IGASAMEX USA Ltd. Scotiabank Inverlat S.A. may draw upon this letter of credit if IGASAMEX USA Ltd. defaults under the terms of its loan agreement with Scotiabank Inverlat S.A.

8. Financial Instruments and Risk Management

a. Financial instruments

The fair values of the Corporation's financial instruments, including accounts receivable, bank indebtedness, accounts payable and intercompany accounts payable approximate their carrying values due to the short-term nature of the instruments.

b. Risk management

The objectives, policies and processes for managing risk were consistent with the prior year.

i. Foreign currency exchange risk

The impact of foreign currency exchange risk in relation to the Corporation's expenditures is insignificant as the majority are in Canadian currency. However, the value of its long-term investments are impacted by changes in foreign currency, as discussed in Note 4.

8. Financial Instruments and Risk Management(continued)

ii. Liquidity risk

Liquidity risk is the risk that the Corporation is unable to meet its financial obligations as they become due. For financial obligations, the Corporation has credit facilities available to refinance maturities in excess of anticipated operating cash flows. The following summarizes the contractual maturities of the Corporation's financial obligations as at December 31, 2009:

	6 months or less	7-12 months	1-2 years	3-5 years	More than 5 years
	(thousands)				
Bank indebtedness	$ 2,893	$ -	$ -	$ -	$ -
Accounts payable	160	-	-	-	-
Intercompany accounts payable	23	-	-	-	-
	$ 3,076	$ -	$ -	$ -	$ -

iii. Credit risk

The Corporation is exposed to credit risk through accounts receivable. The Corporation extends credit to its counterparties in the normal course of business. To reduce its credit risk, the Corporation has established policies and procedures to monitor and limit the amount of credit extended to its counterparties and may require letters of credit and other forms of security. At December 31, 2009 the maximum credit exposure to a single counterparty was $4 thousand (2008 - $2 thousand).

The carrying amount of financial assets represents the maximum credit exposure as follows:

	2009	2008
	(thousands)	
Accounts receivable	$ 6	$ 4
Maximum credit exposure	$ 6	$ 4

8. Financial Instruments and Risk Management(continued)

The following reflects an aging summary of the Corporation's accounts receivable:

	2009	2008
	(thousands)	
Current	$ 6	$ 4
30 - 59 days	-	-
60 - 89 days	-	-
Greater than 90 days	-	-
	$ 6	$ 4

The Corporation does not have a provision for credit losses (2008 - $nil).

9. Interest Expense

During the year, the Corporation made payments for interest to the parent of $15 thousand (2008 - $61 thousand).

10. Net Change in Non-Cash Working Capital

	2009	2008
	(thousands)	
Accounts receivable	$ (2)	$ (1)
Accounts payable	23	5
Intercompany accounts payable	(148)	138
	$ (127)	$ 142

11. Related Party Transactions

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms.

Transactions with SaskEnergy and its subsidiaries were as follows:

	2009	2008
	(thousands)	
Corporate expenses	$ (7)	$ 10
Interest expense	$ 13	$ 58

These items have been recorded at their exchange amounts. Amounts outstanding at year end have been shown as intercompany accounts payable on the statement of financial position.

12. Employees' Future Benefits

a. Pension plans

All employees of the Corporation are members of the defined contribution pension plan. During the year, the Corporation contributed $11 thousand (2008 - $11 thousand) on behalf of employees for current services.

b. Retiring allowance plan

The unfunded defined benefit retiring allowance plan for management employees is as follows:

	2009	2008
	(thousands)	
Accrued benefit liability	$ 88	$ 84
Benefits paid during the year	-	-
Net expense	4	3

The Corporation measures its accrued benefit liability as at December 31 of each year with an annual actuarial valuation. The significant actuarial assumptions adopted in measuring the Corporation's accrued benefit liability at December 31 are:

	2009	2008
Discount rate	**5.2 per cent**	7.1 per cent
Inflation rate	**2.5 per cent**	2.5 per cent
Average remaining employee service life	**5.5 years**	6.5 years

Effective January 1, 2006 the retiring allowance for management employees was converted to an annual contribution to a registered savings plan. For these employees, the length of service earned for the purpose of the retiring allowance plan is equal to their service up to and including December 31, 2005. Entitlements, under the retiring allowance plan, earned to December 31, 2005 will be paid out to management employees upon their retirement in accordance with the terms of the plan.

13. Comparative Figures

Certain of the prior year's figures have been reclassified to conform with the current year's presentation.